

**Right this Time?
An Analysis of the First Year's Council Tax
Figures**

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The Institute for Fiscal Studies has no corporate views, and the opinions expressed are those of the authors, Any remaining errors are the responsibility of the authors alone.

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1. Introduction

The debacle over the Poll Tax has left the means of local authority financing from local domestic taxation at something of a major turning point. Some influential commentators have voiced the opinion that, if the new replacement for the Poll Tax, the **Council Tax**, is unsuccessful at becoming a generally accepted system of local taxation, then central government should simply step in and take over all tax revenue raising powers and transfer funds to local authorities through the grant system.

In this somewhat uncertain climate the new Council Tax, which was introduced on 1 April 1993, may well represent the last opportunity for local government to retain some autonomy over the levels of domestic local taxation. Recent years have seen a substantial movement away from local taxation towards national taxation. Three years ago, local authorities lost the power to set the business rate, and in the 1991 Budget a large part of local taxation was transferred to national taxation as a result of the £140 cuts in the Poll Tax and the increase in VAT from 15% to 17.5%.

There are a number of reasons why both rates and the Poll Tax were unpopular as local taxes. A fundamental feature of both taxes was their high degree of regressivity¹. This meant that an extensive rebate system was required to protect the poor. It also meant that local authorities were constrained to collect only a small proportion of local revenues from local domestic taxation. Of course, keeping local tax contributions relatively low required substantial financial support through the grant system from central government.

¹ Regressivity in a tax means that the tax takes a larger proportion of income from the poor than from the rich.

Right This Time?

These are some of the important issues the Council Tax will have to face. Has the Government got it right this time? Can the Council Tax stem the tide towards national taxation? Will it help provide stability in local authority financial arrangements into the next century? We address these major issues in this report.

The Government argues that the Council Tax is a local tax which combines fairness with simplicity. It claims that the Council Tax is fair because :

- single adult households receive 25% discounts;
- there is no minimum payment- there will be 100% rebates for the very poor;
- individuals in the top Council Tax band will have to pay no more than three times that of those in the bottom band.

The Council Tax is claimed to be simple because:

- precise property valuations are not required because properties are placed in a broad banding system;
- the banding system circumvents the need for regular property revaluations;
- there is no requirement for a register of adults.

In this report we also address, therefore, these issues of the fairness and the simplicity of the Council Tax. Using actual data on Council Taxes set by local authorities we examine how the Council Tax is distributed across the income range and by individual type. Is it a regressive tax? How does it compare with the Poll Tax ? How well have the single person discounts and the benefit system worked in protecting those the Government aims to protect?

Furthermore, we consider aspects that relate to the future credibility of the tax. In particular we examine the issue of whether revaluations ought to be taking place at regular intervals. To throw some light on this issue, we attempt to

estimate what would have been the impact on local bills if April 1992 valuations had been used rather than April 1991. We also consider the implications for local authorities of the Government's approach to assisting areas with relatively low resources.

We start in this section by outlining the main features of the Council Tax.

The Council Tax

In 1990 local authorities administered the removal of domestic rates and introduced an entirely new tax - the Community Charge. As a result of its unpopularity, the Government announced that it was to be removed in April 1993 and replaced by a new local property tax - the Council Tax. During this period Northern Ireland authorities have continued to collect domestic rates.

The Council Tax is a hybrid tax. It appears at first sight to be a banded property tax. However, it also has a personal element which works by giving discounts to single households, and an income element brought about by the payment of income related rebates. (For a detailed discussion of the form of the tax, see Hills and Sutherland (1991), and for an excellent summary of the administrative arrangements, see Farrington and Lee (1992)).

The Council Tax bill is sent as a single request for payment to each dwelling. The individual liable to pay the tax will, in general, be the occupier of the dwelling. That is either the owner occupier, a tenant, or other occupiers such as squatters². In most circumstances there is 'joint and several liability' for the Council Tax payment. In short, this means that liability for payment can fall on more than one person in a dwelling if, for example, the premises are jointly

2 In the case of an empty property the non-occupying owner will be liable.

owned or a tenancy is shared. This principle also extends to spouses and cohabitants even when they neither jointly own the property nor share the tenancy agreement.

To determine the local tax base, each dwelling is allocated to one of the eight valuation bands; indicated in Table 1 by the letters A to H.

Table 1
Valuation Bands for England, Scotland and Wales

Band	Tax Rate Relative to Band D	England	Scotland	Wales
A	2/3	up to £40,000	up to £27,000	up to £30,000
B	7/9	> £40,000 to £52,000	> £27,000 to £35,000	> £30,000 to £39,000
C	8/9	> £52,000 to £68,000	> £35,000 to £45,000	> £39,000 to £51,000
D	1	> £68,000 to £88,000	> £45,000 to £58,000	> £51,000 to £66,000
E	1 ² / ₉	> £88,000 to £120,000	> £58,000 to £80,000	> £66,000 to £90,000
F	1 ⁴ / ₉	> £120,000 to £160,000	> £80,000 to £106,000	> £90,000 to £120,000
G	1 ² / ₃	> £160,000 to £320,000	> £106,000 to £212,000	> £120,000 to £240,000
H	2	> £320,000	> £212,000	> £240,000

The band values indicate the open market value of a property on 1 April 1991. The open market value is broadly defined as the value which a vendor might reasonably have expected to realise if the property had been sold on the open market on 1 April 1991. Table 1 indicates the different values attached to bands for England, Scotland and Wales. The Council Tax is not currently being introduced in Northern Ireland and the domestic rating system therefore remains.

Table 1 also indicates the relative tax rate with respect to the bands. These ratios are fixed by central government and apply across England, Scotland and Wales. The relative rates indicate that a dwelling in band H will pay twice as much as a dwelling in band D, and three times as much as a dwelling in band A.

The personal element of the Council Tax enters through the discounts for single households and empty properties. Where there is only one resident adult in a dwelling, the relevant Council Tax bill is reduced by 25%. If a property is empty, the owner of the property pays only 50% of the Council Tax bill³. The Government has also applied 'status discounts' to a number of individuals. These work by not counting the individual as an adult in the household. A key group are students who are involved in full-time educational courses. So, for example, a single adult with a student residing in the dwelling will be entitled to a single person discount and therefore will have to pay only 75% of the Council Tax bill⁴.

An additional feature of the Council Tax is the benefit system. The Council Tax is a regressive tax and, like its predecessors, it requires comprehensive rebate arrangements if it is not to be too heavy a burden on lower income households. Under the Council Tax, households on very low incomes will receive 100%

3 In Wales the district council has the right to reduce the reduction to 25% for an empty property and in the case of holiday homes they can offer no discount at all.

4 There are 10 categories of status discounts and they include persons in detention, severely mentally impaired, hospital patients, carers etc.

rebates. As a household's net weekly income increases, the rebate tapers off at a rate of 20p in £1. It is likely that nearly a quarter of all households will be entitled to some form of Council Tax rebate. It is this rebate structure which makes the bottom end of the Council Tax a form of local income tax⁵.

In summary, the Council Tax is a combined property tax, personal tax and local income tax. The income element works through the rebate system and, although administered locally, it is financed and determined centrally. It does not therefore impact on local authority revenues. It follows that the tax base for each authority is determined by the number of properties in each band and the numbers entitled to discounts.

5 Full details of the rebate structure are set out in Section 4.

2. The Council Tax and Local Authority Tax Bills in 1993

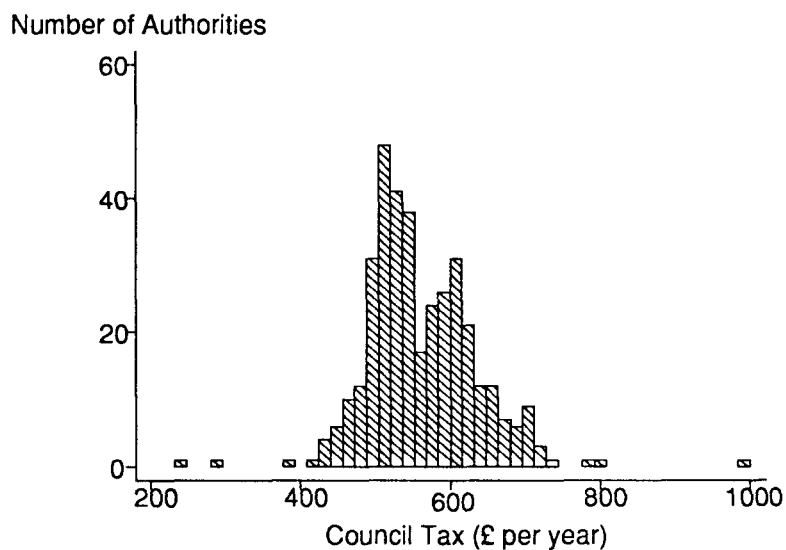
In this section we look at the impact on local authority financial resources under the Council Tax. The new financial arrangements change the relationship between the level of spending and the level of taxation required to finance that expenditure. Therefore, many local authorities will this year have to raise more or less in local revenues. This section examines the direction of these changes.

Local authorities are raising approximately 6% less in local taxes in 1993 than they did in 1992. As usual, a number of factors influence local authority expenditure levels. These range from the net outcome of transfers of functions between central and local government, the threat of capping, and also local authorities running out of reserves to finance spending and thus having to resort to cuts in expenditure.

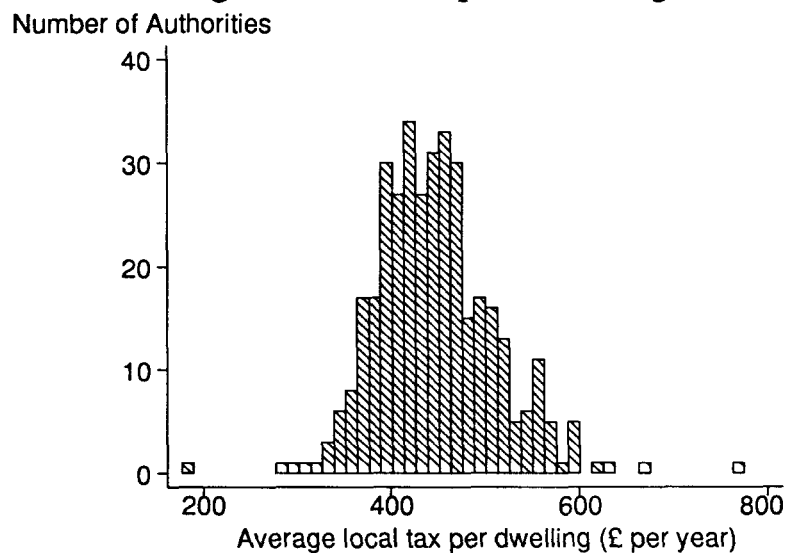
In Figure 1 we show both the range of band D Council Taxes and the Average Council Tax⁶ per dwelling across local authorities in England. Average Council Taxes range from less than £200 per dwelling to well over £600. However, nearly 90% of authorities kept their average Council Taxes between £300 and £500. The average Council Tax per dwelling is £446 and the average band D Council Tax (weighted by the number of dwellings in an authority) is £576.

⁶ Average Council Tax is the Council Tax revenue raised in an authority divided by the number of dwellings.

Figure 1
Distribution of Council Taxes Across Local Authorities⁷
Band D Council Taxes



Average Council Tax per Dwelling⁸



⁷ These are uncapped band D and average Council Taxes.

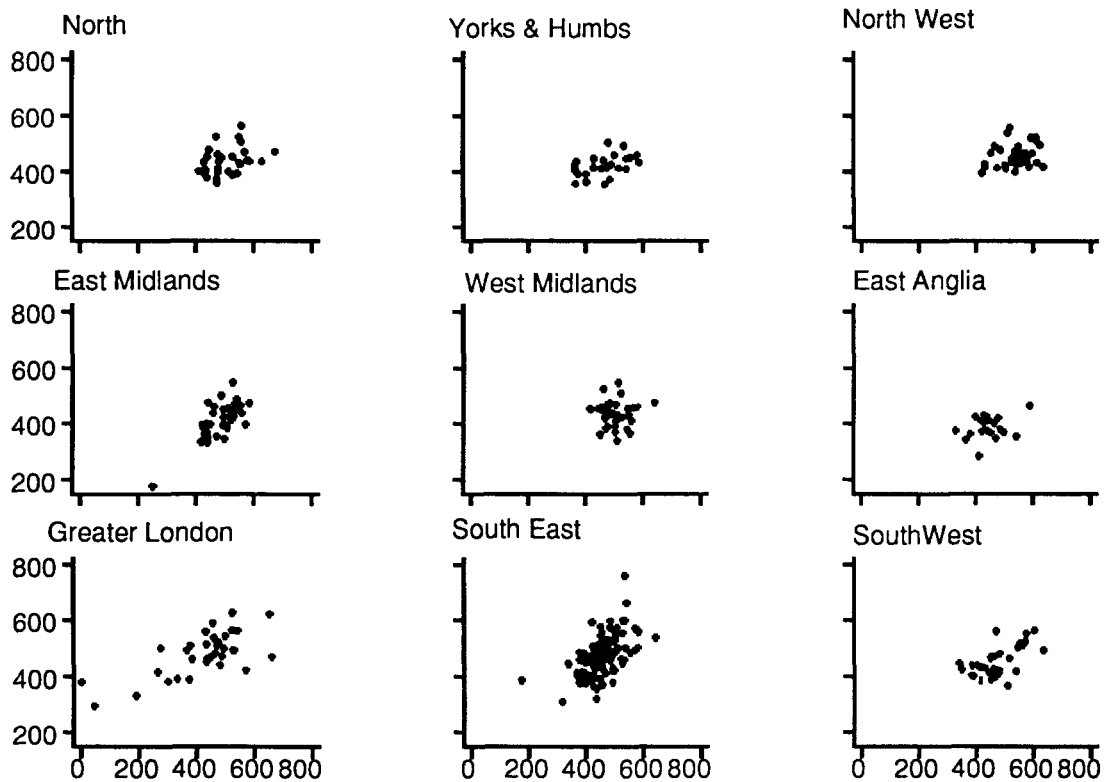
⁸ The Average Council Tax per dwelling before capping.

Figure 2 is a regional analysis which indicates that there is some correlation between average Council Taxes and average Poll Taxes. Nevertheless, there are a large number of authorities where the change in average taxation is quite substantial - nearly 20% of authorities face increases or decreases of more than £100 per dwelling. These sorts of changes in the average bill in the main are brought about by the move from Poll Tax to Council Tax and not by substantial changes in local authority spending. Contrary to the tenor of the recent political debate, it is the change in the tax, and not the political complexion of the local council which is the principal determinant of the change in local tax levels.

Figure 2

Relationship between Average Council Taxes and Average Poll Taxes

Average Council Tax per dwelling



Average Poll Tax per dwelling

Even if the country-wide aggregate amount raised in local taxation was the same as last year, large numbers of local authorities would still be raising either more or less from their local tax-payers this year compared with last. This is because the local authority finance system attempts to introduce an element of so-called resource equalisation⁹. This means that, other things being equal, central

⁹ This is in addition to the needs equalisation that currently exists and works through the Standard Spending Assessments (SSAs).

government pushes more of its Revenue Support Grant (RSG) into areas with lower taxable resources, for example, a local authority with a greater proportion of its properties in lower Council Tax bands.

How resource equalisation leads to local authorities raising more or less in local taxation simply as a result of a change in the tax system is as follows. Under the Council Tax, the RSG is allocated by a formula which takes into account both a local authority's relative needs - its SSA - and its taxable resources. In determining the distribution of RSG, it is assumed that when local authorities spend at their SSA they will set a band D Council Tax rate pre-determined by the Department of the Environment. Broadly, this band D Council Tax is the same for all authorities and is called the Council Tax for Standard Spending (CTSS). Taking into account that local authorities also receive business rate income, the formula for the distribution of the Revenue Support Grant for each local authority is as follows:

$$\begin{array}{l}
 \boxed{\text{Revenue Support Grant}} = \boxed{\text{Standard Spending Assessment}} \\
 \text{minus } \boxed{\text{Business Rate Income}} \\
 \text{minus } \boxed{\text{Council Tax for Standard Spending times Tax base}^{10}}
 \end{array}$$

So we can see now that local authorities which spend at SSA set the uniform CTSS. Therefore, if the authority has high taxable resources, it will raise a relatively large amount of tax income. Given that, under the Poll Tax, taxable resources were the same in all authorities (ie people), it follows that any authority which now has above average taxable resources will raise more from its local tax-payers. It also follows that highly resourced local authorities will receive relatively less Revenue Support Grant.

10 To determine the Council Tax base in each local authority the tax is expressed in terms of 'equivalent number of band D properties'.

$$B_j = \sum_{i=1} r_i [N_i - (D_i/4) - (E_i/2)]$$

- where
- B_j = tax base
 - r_i = relative tax rate set out in table 1.
 - N_i = number of properties in band i.
 - D_i = number of 25% discount dwellings in band i.
 - E_i = number of 50% discount dwellings in band i.

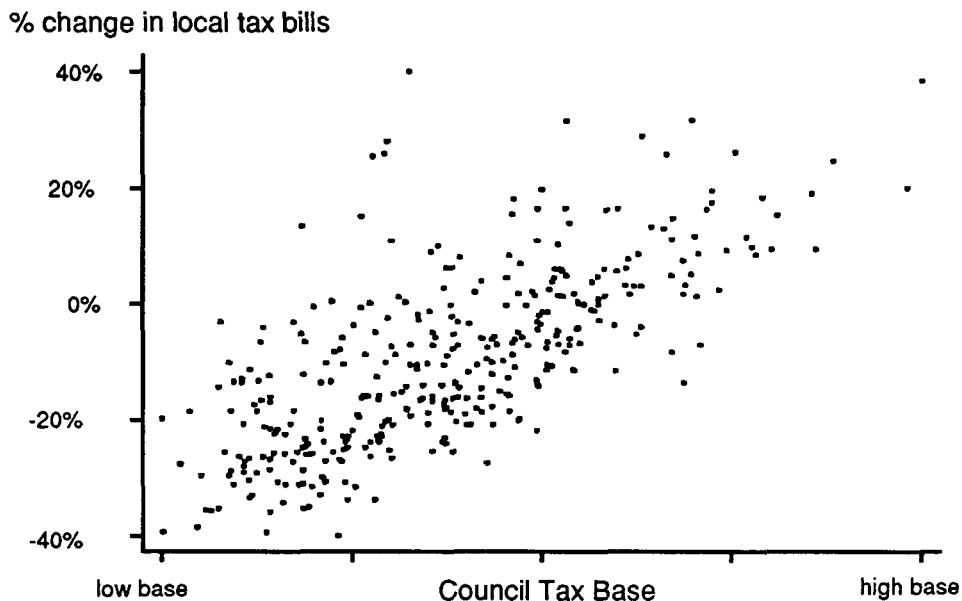
It follows, therefore, that the tax rate can be expressed as the tax bill of a band D property. Each local authority will determine its tax rate (τ) as follows:

$$\tau_j = (E_j - G_j - ND_j) / B_j$$

- where
- E_j = local authority net revenue expenditure
 - G_j = Revenue Support Grant
 - ND_j = income from the uniform business rate pool

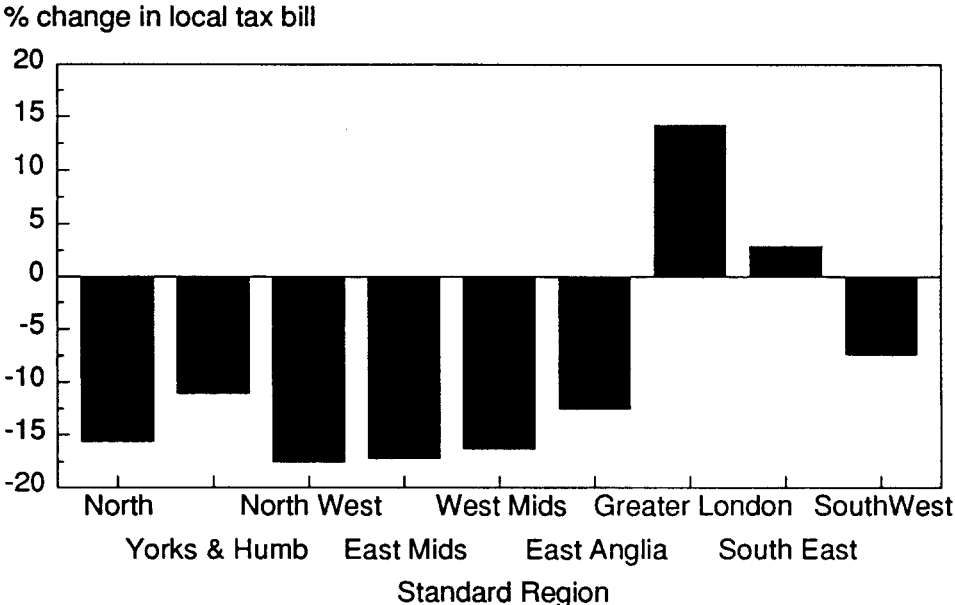
Figure 3 reinforces this point by indicating that the local authorities with relatively low taxable resources tend to be those experiencing the largest percentage decreases between last year and this.

Figure 3
Relationship between the Change in Local Tax Bills and the Local Tax Base



The effect of these changes is broadly shown in Figure 4. This indicates that the majority of local authorities raising more in local taxation are from the Greater London and the South East. It can be seen that the local tax burden has risen considerably in Greater London (14%) and to a lesser extent in the South East (3%). All other regions are substantial gainers, in particular the North West (-17.6%), East Midlands (-17.2%), North (-15.6%) and the West Midlands (-16.3%).

Figure 4
Regional Redistribution of the Local Tax Burden



3. Gearing, Resource Effects and Valuations

Gearing

Already, a number of commentators have indicated concern over the high gearing that is associated with the Council Tax. There are two reasons for this. The first is that only a relatively small proportion of local authorities' expenditure is financed from the Council Tax. The Government is keen that the amount raised from the Council Tax stays at its current share of around 15%¹¹. The second feature is that the cost of any additional spending by a local authority above its SSA is financed fully by Council Tax payers. The overall effect of these two factors is that a 10% increase in additional spending by local authorities will lead to an increase of nearly 70% in the Council Tax. This gearing effect of 7:1 is the national average gearing effect. Across local authorities gearing varies considerably, ranging from 12:1 to 2:1.

Nevertheless, it is our view that the concerns about the high gearing effect are somewhat over-emphasised and in some cases misunderstood. Take two authorities, one at each end of the gearing range, as in the examples above of 2:1 and 12:1. If the authorities carried out 10% of additional spending, the low gear authority would raise the Council Tax by 20% and the high gear authority by 120%. This sounds dramatic, but is caused only by the high gearing authority's relatively high needs, high spending and possibly low tax base. The reality for the local tax-payer in money terms is that if both these authorities decide to spend £100 per dwelling above their SSA then, under the Council Tax, both authorities will simply increase their average bills by £100 per dwelling.

¹¹ Net of Council Tax rebates.

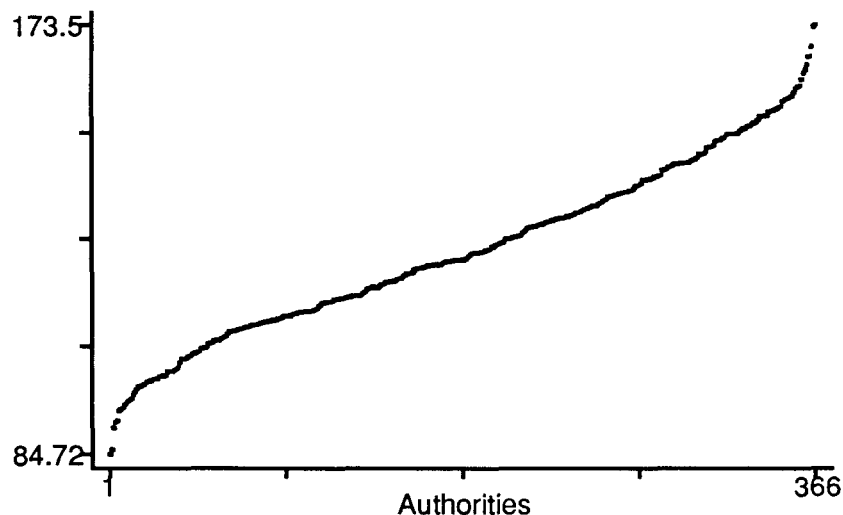
Resource effects

In our view a more valid criticism of the Council Tax is the *resource effect* on Council Tax bills when authorities carry out additional spending. This arises because of the variation in the size of local authorities' tax bases. Because the Council Tax has only partial equalisation - that is it resource equalises only at SSA - then it follows that higher tax base authorities can finance additional local spending at a lower band D rate than low tax base authorities. That is to say that authorities with a greater proportion of their dwellings in the high bands can finance a £100 per dwelling increase over SSA at a relatively lower band D rate.

The resource effect is shown in Figure 5. Here we indicate the additional amount on the band D rate across local authorities for an additional £100 per dwelling spending in the area. It can be seen that the additional band rates range from £85 in the lowest area to £174 in the highest area.

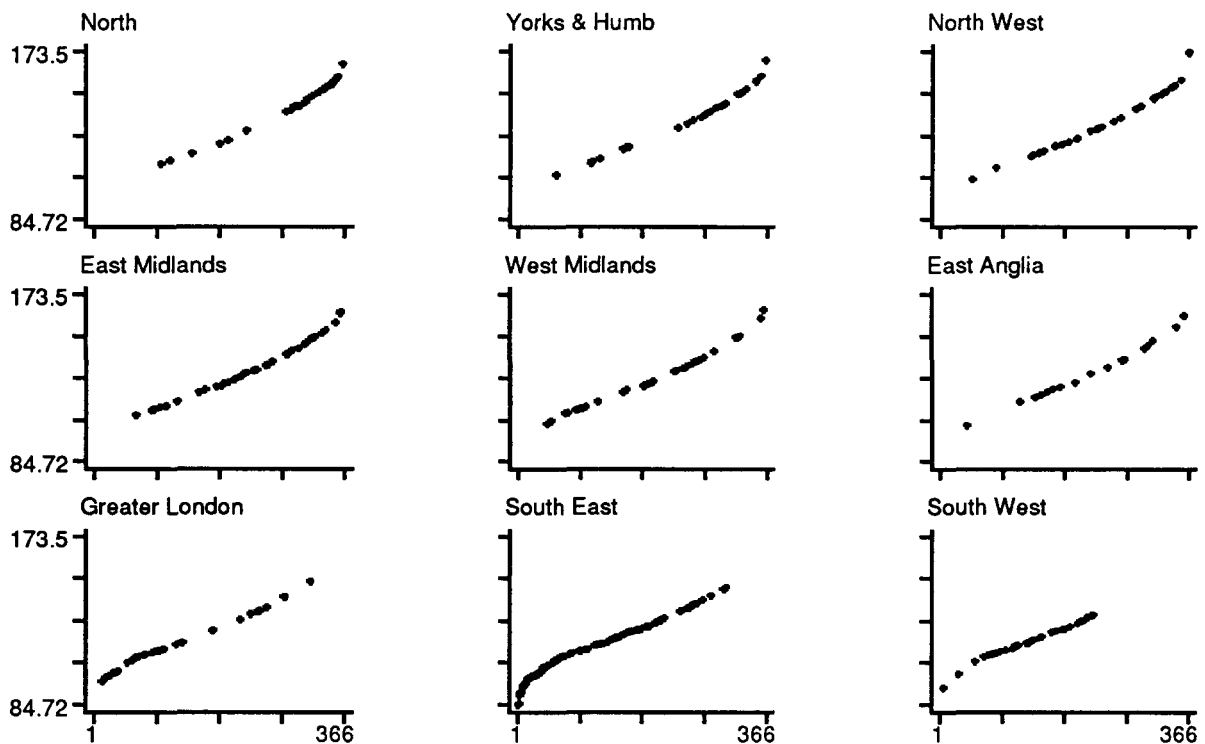
Figure 5
The Resource Effect

Rise in Band D Rate for a £100 increase in spending



Of course this may not be perceived by local tax-payers as a serious problem if the band D rates were regionally clustered - that is to say that although the range is wide nationally, they may in fact be far more clustered regionally. However, Figure 6 indicates that, although the range reduces in each region, the differences within regions still remain significant. For example, in the South East the range is £85 to nearly £150 on the band D rate for an additional £100 per dwelling spending above SSA.

Figure 6
The Resource Effect: A Regional View



The main problem that arises from the resource effect is that there is now a lack of horizontal equity in the system: similar households are being treated differently by the tax system. For example, it is possible that an authority in the

South East spending £100 per dwelling above SSA could set its band D rate at £578¹² whilst one of its neighbouring authorities spending similarly has to set a band D rate of £643. Of course, for band H properties in the two areas the difference would be twice as great, i.e. £130.

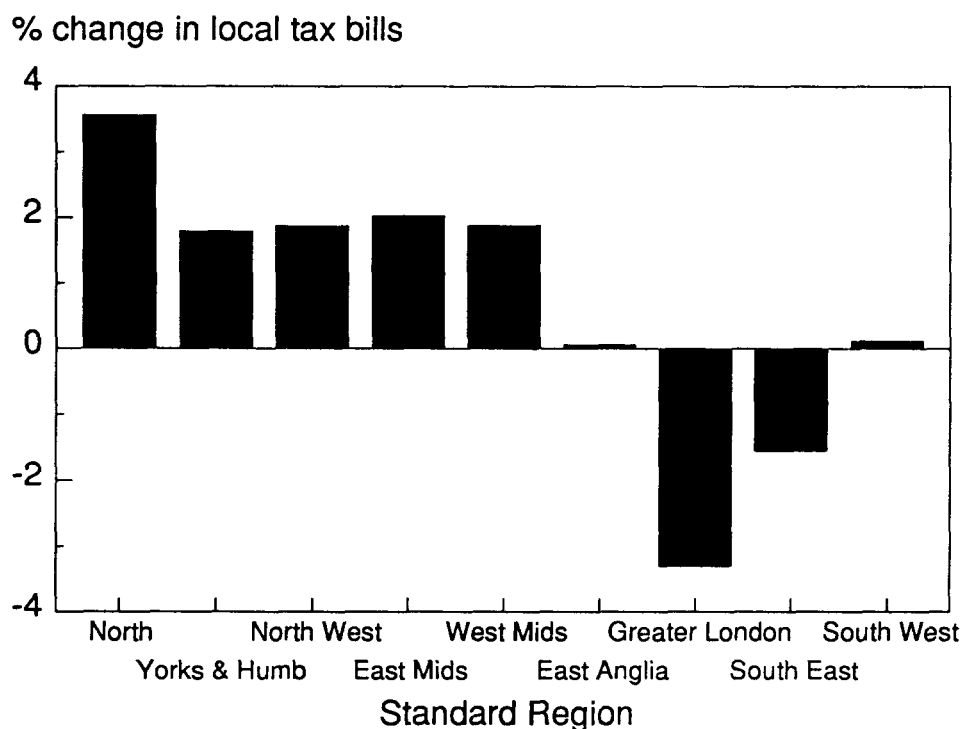
How might this problem be overcome? One possibility is to extend the current system of resource equalisation. As we have shown, the current system allows local authorities to set the same band D rate when spending at SSA - that is resources are equalised at SSA - but when authorities are spending at levels other than SSA, local differences in the band D rate will reflect not only spending but also the size of the taxable resources. Extending the current resource equalisation model would mean relating band D rates to spending.

Valuations

Finally, in this section we consider the impact on local tax bills of choosing April 1991 as the valuation date. The Government has suggested that there is no need for revaluations because the bands are wide enough to offset any significant shift in the relative prices of property - both within a local authority and across regions. In what follows we show the results of our estimate of the impact on local tax bills using a different valuation date. Figure 7 shows the increase or decrease in regional local tax bills as a result of taking into account the changes in relative house prices between April 1991 and April 1992. Although the banding system has been able to stifle the substantial shifts in property prices during this period, our estimates indicate that the impact on regional local tax bills would still have been significant within a year. For example, Greater London local tax bills could have been up to nearly £20 per dwelling lower this year if April 1992 valuations had been used.

12 Assuming the current Council Tax for Standard Spending of £493.

Figure 7
Regional Shift in Council Tax Bills ; 1992 Prices



Of course, this is simply the result after one year and it is difficult to tell what will happen to relative prices in the future. However, what we do know is that regional price differentials can change quite substantially over time. Our experience under the rating system with the way relative rental values changed during the 1960s, 1970s and 1980s reinforces this point. If the Council Tax is to remain a credible tax it will need to be flexible and responsive enough to allow for significant shifts in relative prices, and the only way it will be able to do so is by regular revaluations of the capital values attached to properties.

4. The Council Tax : Is it Fairer?

'Fairness' for any tax system is a complicated issue. For a local tax the problems multiply because the tax should be viewed in conjunction with the tax system as a whole, the benefits that individuals receive from local services and the equity of Government Grants to local authorities. A detailed analysis of the equity issues that arise from local taxation can be found in Ridge and Smith (1991).

The Government has given its own reasons for the fairness of the Council Tax. Recall that the reasons were that it (a) gave discounts for single adult households, (b) had no minimum payment for the very poor, and (c) those with properties in the highest band would have to pay no more than three times those with properties in the lowest band. The justification for designing a tax so that these three groups were not excessively burdened was that their income could not cover the bills of a pure property tax. It appears, therefore, that the Government would like the Council Tax to take account of living standards of households. We will compare the burden of Poll Tax and the Council Tax across the distribution of living standards in England to assess how it is related to ability to pay.

Modelling

We modelled the Council Tax and the Poll Tax using the IFS tax and benefit model TAXBEN2 (Johnson, Stark and Webb, 1990). This is a simulation model that can analyse the distributional impact of tax changes for a large and representative sample of UK households. For this analysis, the model was run using the English households in the 1991 Family Expenditure Survey (FES) (a sample of nearly 6000) and the sample was weighted to reflect the actual distribution of household types in the UK. The FES is an anonymised survey

and the Central Statistical Office (CSO) provided us with 59 different Poll Taxes that reflected the area of the household and the actual Poll Tax paid in 1991-92. These were uprated to 1992-93 levels.

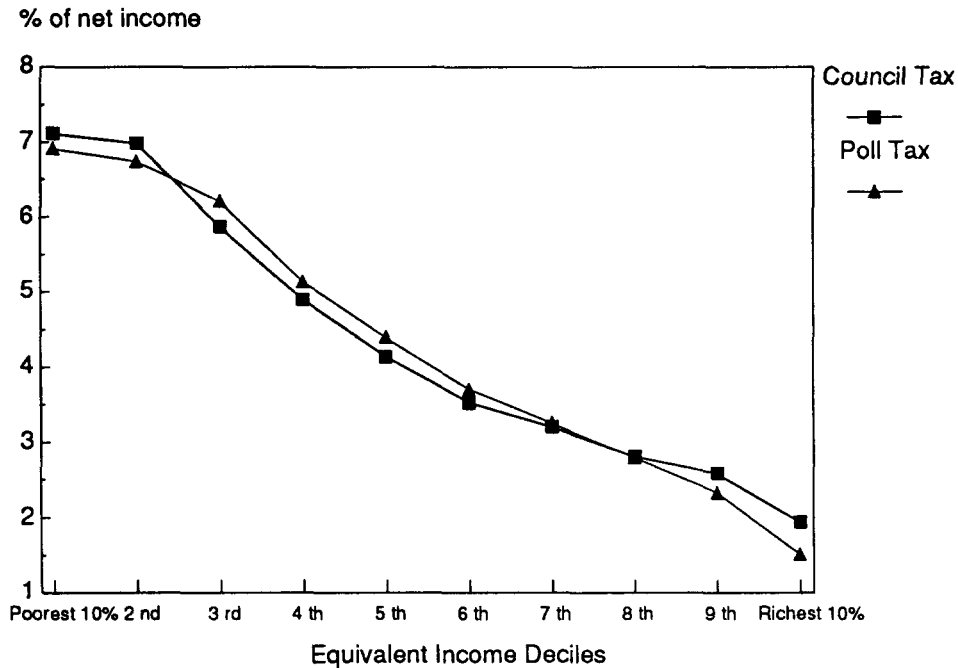
We carried out a similar banding exercise to create 59 Council Tax band D rates that reflected the Council Tax Rates set in the standard region of the household and the broad level of the Poll Tax supplied by the CSO. Finally, an estimate of the house price of each FES household was constructed from its characteristics and the household was assigned a Council Tax band from the rank of its house price, so that the distribution between bands matched the distribution in the country.

To assess the fairness of the Council Tax, we analysed a revenue neutral comparison of the Poll Tax so that the amount of money raised was the same as that under the Poll Tax in 1992-93. All differences we show in this section are therefore entirely related to the difference in structure and form of the two taxes. The comparison also assumes that all Poll Tax and Council Tax bills are paid.

Council Tax and the Poll Tax without a benefit system

Firstly in Figure 8 we look at the structure of each tax as if no benefit system existed. The Council Tax line includes all personal discounts for groups such as single adult households, students, apprentices and YTS trainees. It shows the burden of the Council Tax and the Poll Tax on household living standards from the poorest 10% to the richest 10% (equivalised income deciles). The equivalised income deciles we used show the standard of living of a household because their incomes are adjusted for household size, so that large households with similar incomes to small households appear poorer. This reflects the standard of living that the household actually enjoys. The burdens from each local tax are represented by the percentage of their net income they pay in local tax.

Figure 8
Council Tax and Poll Tax Burdens Across Living Standards
No Benefits



Note: Revenue neutral comparison: gross Council Tax levels set to raise the same total revenue as the Poll Tax in 1992-93.

Figure 8 shows that the Council Tax has a remarkably similar effect on household living standards to the Poll Tax. They are nearly equally regressive. Regressivity is shown in the graph by a line descending from left to right. It is clearly the case that both taxes are shown to be regressive and this is easily understood in the case of the Poll Tax because it operates with a flat rate. The Council Tax, however, is banded so we would expect that the tax would be significantly less regressive. Why is it that the Council Tax is very nearly as regressive as the Poll Tax?

- Many households live in the same band as each other even if there is a large difference in income between the households. This is particularly true in areas of low house prices where over 80% of households can be in Band A. If most properties fall into the same band, the Council Tax changes from being similar to a property tax to being more like a "household" tax where the same rate is paid by every household.
- If there is little correlation between Council Tax bands and household living standards, then the increased payments as a property moves into a higher band has little correlation with income and so higher Council Tax bills do not necessarily reflect greater means to pay. This can create regressivity if poorer households are placed in higher Council Tax bands.
- Even if there is broad correlation, the Government's decision to limit band H bills to three times those of band A whilst the property value will be at least eight times larger means that the average Council Tax bill per pound of property value falls as households live in more expensive properties. So if the relationship between **house price** and **income** is greater than 3:1, this will create regressivity in the Council Tax.

These three reasons explain why the Council Tax is nearly as regressive as the Poll Tax and, like the Poll Tax, needs a benefit system to accompany it.

Council Tax Benefit

Apart from discounts for groups such as single people, the Council Tax has its own benefit system to help poorer households. Council Tax Benefit can be split into two parts: Main Council Tax Benefit, which operates in a similar way to Housing Benefit; and Second Adult Rebates, which are a new idea designed specifically for the Council Tax.

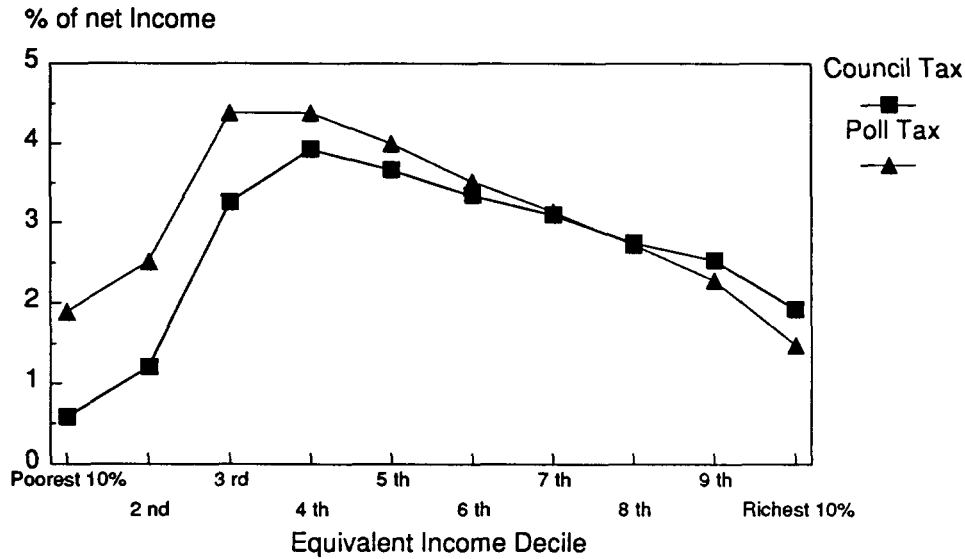
Main Council Tax Benefit is closely aligned to Housing Benefit. If individuals are receiving Income Support, they are automatically entitled to a 100% rebate

of their Council Tax Bill. For those who are on low incomes, every £1 of net earnings above the "applicable amount" (the Income Support rate entitlement plus an earnings disregard) will lead to a 20p reduction in the amount of Council Tax Benefit. Thus, the system for Main Council Tax Benefit is very similar to Poll Tax Benefit, except the maximum rebate is 100% compared to 80% under the Poll Tax, and the Taper is set at 20% rather than 15%. Capital limits are the same as those existing for the Poll Tax. Main Council Tax Benefit is generous in comparison to the Poll Tax Benefit System where 20% of the Poll Tax had to be paid regardless of income. Like Housing Benefit, there is a system of deductions from benefit for other people living in the household if it is deemed that their income level is such that they can afford to contribute part of the Council Tax liability.

Second Adult Rebates are designed so that single people living in the same property with a very poor adult can benefit up to the maximum 25% discount they would receive if living alone. A typical example of this is a single son living with his elderly mother on Income Support. He would be entitled to claim a 25% discount if his mother had no income other than her Income Support. If she received a small private pension (less than £100), he would be entitled to a smaller discount of 15%, or 7.5% if the pension was between £100 and £130. If it was larger than this he would not be entitled to second adult rebate. There can be more than one "second adult". The key point is that the single person does not need to be poor to claim for someone else also living in the same property. If an individual is entitled to both Main Council Tax Benefit and a Second Adult Rebate, they will receive whichever is the greater.

By introducing both Poll Tax Benefit and Council Tax Benefit to the model, a new graph can be drawn. Figure 9 shows the structure of both taxes including their benefit systems. This graph is no longer completely revenue neutral as Council Tax Benefit is considerably more generous than Poll Tax Benefit.

Figure 9
Council Tax and Poll Tax Structure,
Including Benefits



Note: Gross Council Tax and Poll Tax levels as in Figure 8 and net revenues after taking account of benefits are £500 million less under the Council Tax.

When the benefit system is included, the Council Tax takes up a smaller proportion of income for each decile except the top two. For the poorest 30%, the Council Tax is a significantly lower burden, due entirely to the more generous benefit system. The fourth decile has the highest burden with the tax accounting for 3.5% of net income on average, and further up the income distribution the Council Tax becomes regressive again, as Council Tax Benefit affects fewer and fewer people. So the Council Tax with its benefit system has a progressive element for the first four deciles and is regressive for the next six. From the sixth decile the line is almost exactly the same as in Figure 8. This progressive / regressive structure is inevitable for a regressive tax that is offset by means-tested benefits.

Right This Time?

From Figures 8 and 9 we conclude that the Council Tax is certainly "fairer" than the Poll Tax, although the "fairness" comes from the benefit system and not from the Council Tax itself.

Using the same revenue neutral basis of comparison, it is also interesting to see what proportion of people in each Council Tax band gain or lose, what types of households gain and which types lose, and how the number of adults in a household affects the bill which a household faces.

Council Tax Band

Figure 10
The Council Tax and the Poll Tax by Council Tax Band

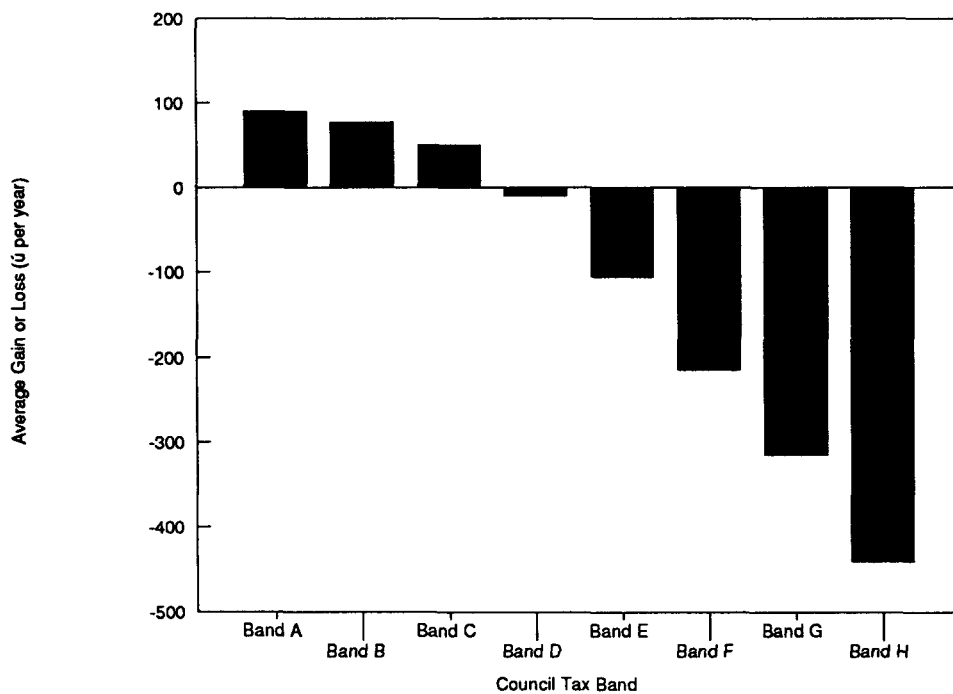
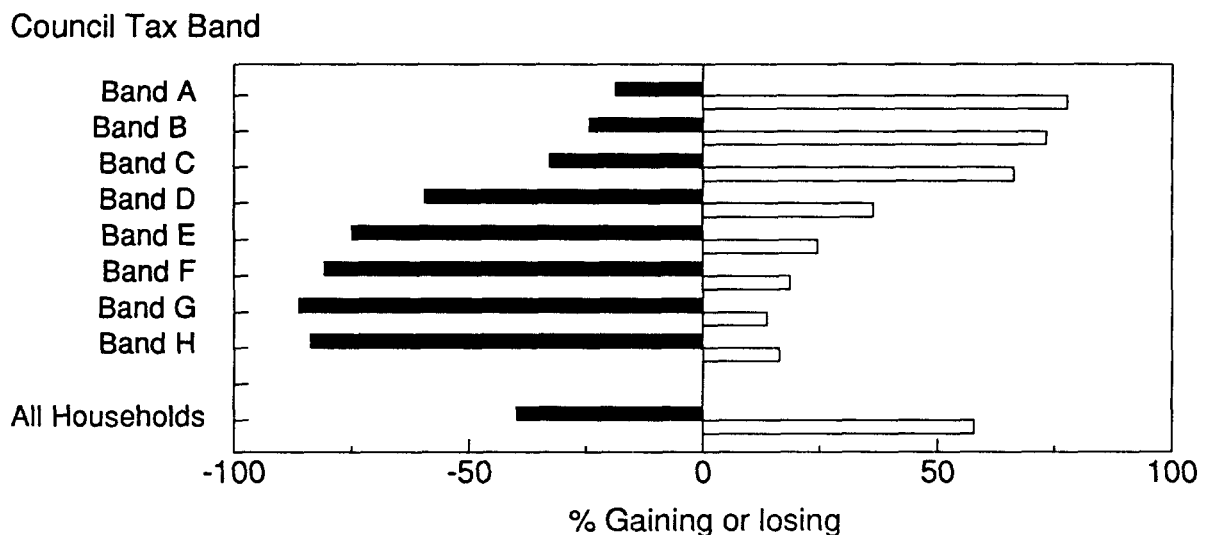


Figure 10 shows that households in Bands A to C would on average gain, and those above Band D would lose if the Council Tax raised the same revenue as

the Poll Tax and there was no transitional relief. The losses, especially in the higher bands, of over £400 a year look much bigger than the gains, but it should be remembered that there are far fewer properties in these bands. Overall, there is a small gain due to the more generous benefit system under the Council Tax. This does not mean that all households in Band A will gain by £90 per year and those in Band H lose by over £400, because every household will have a different gain or loss depending on the level of their Poll Tax, their Council Tax level, their benefit entitlements and the number of adults in the household. Figure 11 shows the proportion of gainers (those who gain over £2.50 a year) and the proportion of losers from a comparison of the two taxes.

Figure 11
Proportion of Gainers and Losers from the Council Tax,
by Council Tax Band



As would be expected there are many more gainers than losers in the lower bands, with band D being the first band where the number of losers outweighs the number of gainers. There are still gainers in band H either because the Council

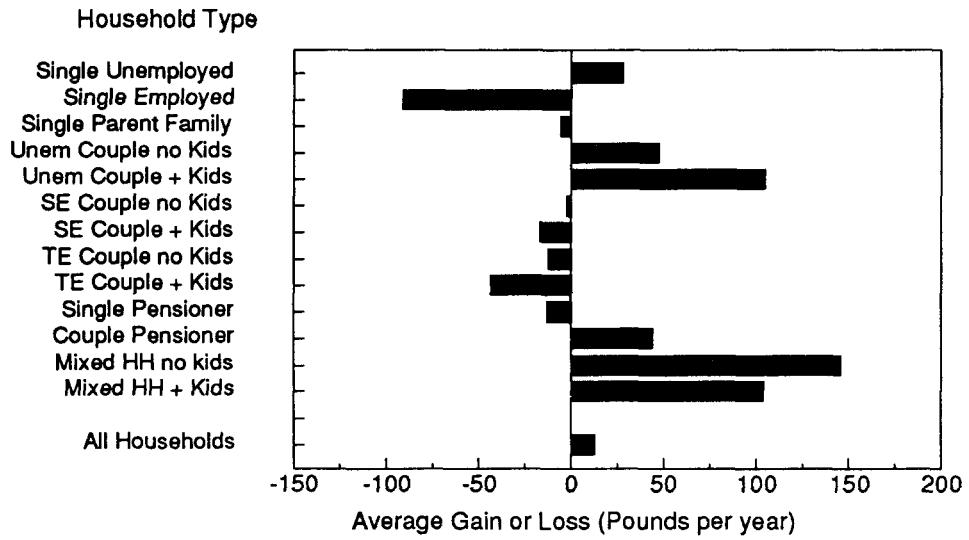
Right This Time?

Tax is significantly lower in that area, but more likely because there is a large number of adults in the household and their combined Poll Tax liability was very high.

Household type

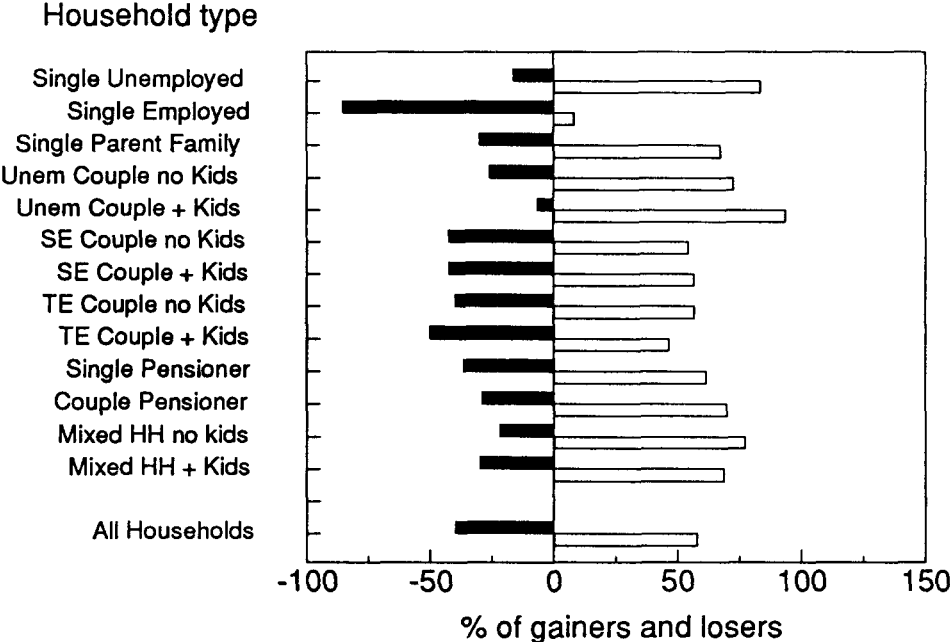
Classifying the results by household type generates some interesting results. Figure 12 shows that households in which no one is working, like the unemployed and couple pensioners, gain as do mixed type households that contain more than one of the other groups. Those out of work tend to gain because of the benefit system, and mixed type households because they tend to be large and were previously faced with high Poll Tax liabilities. All (non-mixed type) households with a worker lose on average, as do lone parents and single pensioners. Those with a single adult lose on average, because the 25% discount does not offset a household bill compared to a personal charge under the Poll Tax, whilst working households, especially those with two earners (TE in Figure 12) tend to live in larger properties and therefore face slightly higher demands under the Council Tax. The proportion of gainers and losers, shown in Figure 13, follows a similar pattern to those classified by Council Tax band, but there is more variance as the band of the property matters as well as benefits, number of adults and the difference between Council Tax and Poll Tax rates. Overall 58% gain. The group with the highest proportion of losers are the single employed.

Figure 12
Average Gains and Losses by Household Type



Note: SE = Single Earner
TE = Two Earners
HH = Household

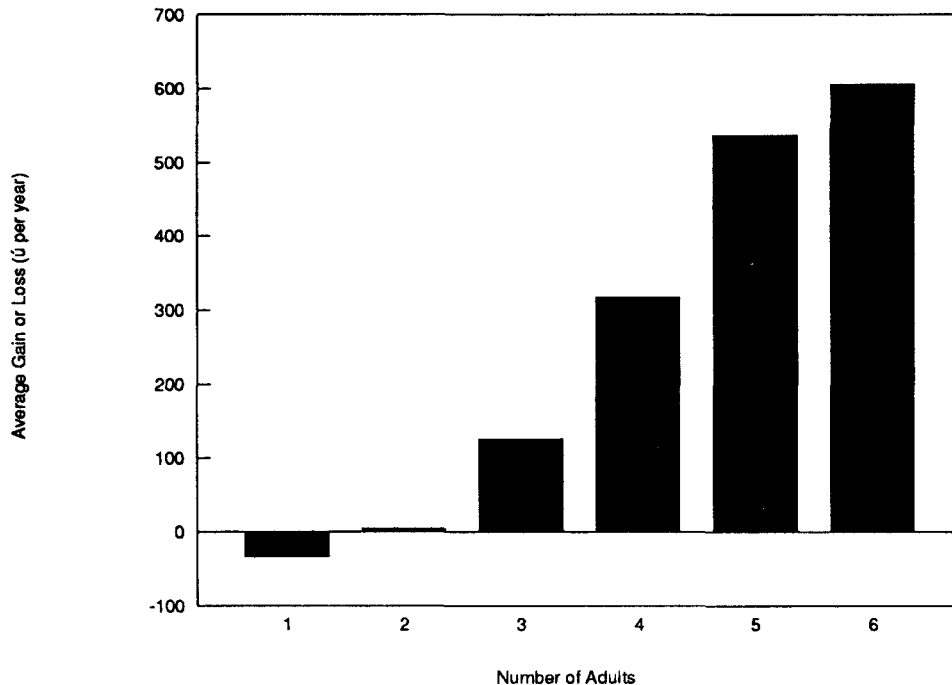
Figure 13
Proportion of Gainers and Losers from the Council Tax,
by Household Type



Number of adults in a household

To show how important the number of adults in a household is to whether a household would pay less under the Council Tax, Figure 14 shows the gains and losses in £ per year from a revenue neutral change to the Council Tax dependent on the number of adults in a household.

Figure 14
Council Tax Gains by the Number of Adults in a Household.



It is clear that households with many adults would gain significantly because previously they had a Poll Tax bill per adult and, under the Council Tax, there is only one bill per household. Single adult households can be seen not to be fully compensated by the 25% discount, whilst two adult households on average are almost unaffected. Recall that there are very few households with more than three adults and these account for only 3% of all households; 35% of households have one adult, while 52% have two.

5. Change in Bills

The previous section looked at the overall "fairness" of the tax and the distribution of gainers and losers if the Council Tax were introduced overnight to raise the same revenue as the Poll Tax in 1992-93. However, the Council Tax is not doing this. Transitional relief protection that limits the loss any household can face and the fact that the Council Tax must raise 6% less revenue than the Poll Tax mean that many more people will face lower bills in the first year of introduction. We modelled these extra features in nominal terms to gauge the likely reaction to the tax as households compare it to the bills they faced last year.

Two-thirds of households will face lower local tax bills this year

The revenue neutral change from Poll Tax to Council Tax makes 58% of households better off. Given that local authorities are raising 6% less in local taxes in 1993 and the Government's introduction of a transitional relief scheme to help losers, two thirds of all households will in fact face lower bills in 1993.

Table 2 shows the percentage of gainers and losers and the amounts of gain or loss split into household types. With all households taken together, nearly two-thirds gain, while less than a third lose. Again, these figures vary considerably between family types with the largest percentage of gainers living in unemployed households and mixed family type households. The only group in which the majority of households will face higher bills in 1993 compared to 1992 are the single employed.

Table 2.
Gains and Losses by Household Type

	Lose more than £50 per year (%)	Lose between £2.50 and £50 per year (%)	No change (%)	Gain between £2.50 and £50 per year (%)	Gain over £50 per year (%)
Single Unemployed	7.19	6.67	1.54	32.31	52.29
Single Employed	45.28	30.84	4.46	15.18	4.24
Lone Parents	17.85	10.27	0.79	25.75	45.34
Unemployed couple without children	16.03	4.58	0.00	8.40	70.99
Unemployed couple with children	4.85	1.61	0.00	0.00	93.53
Single earner couple without children	22.58	8.47	3.23	13.31	52.42
Single earner couple with children	27.05	8.75	1.67	8.05	54.48
Two earner couple without children	22.99	8.91	0.86	13.22	54.02
Two earner couple with children	29.83	9.33	1.43	14.21	45.19
Single pensioner	22.41	12.00	2.12	33.77	29.71
Couple pensioner	18.30	6.13	1.36	7.29	66.91
Mixed household without children	13.57	3.97	0.96	9.34	72.17
Mixed household with children	18.24	8.40	0.00	7.16	66.21
All household types	23.21	10.71	1.73	15.93	48.43

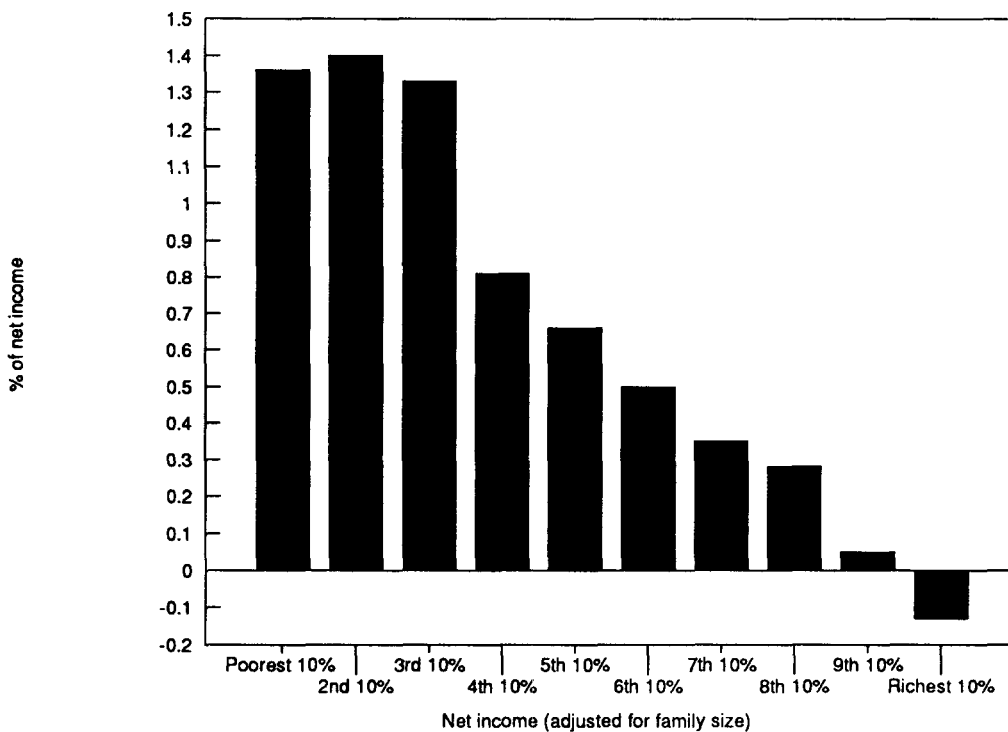
While the above table indicates that the poorer types of households still gain most from the switch from Poll Tax to Council Tax, not all groups with the highest number of gainers are poor. For example, many mixed households without children tend to be relatively well-off.

The poor gain, while the only very well-off lose

Figure 15 shows the percentage change in net income across the income distribution from the introduction of the Council Tax this year. It indicates the progressive nature of the change from the Poll Tax as the poorest 30% of households see the largest percentage increase in net income. All the other

income groups gain by smaller amounts up to the richest 10% which loses, but only by 0.13% of its net income. It is only the richest income group that loses on average because the Council Tax raises less revenue than the Poll Tax did. Again we stress that nearly all of the progressivity of the change in tax or the change in bills this year comes from the restructuring of the benefit system which no longer requires everyone to pay at least 20% of their local tax bill.

Figure 15
Difference in Bills in 1993 Compared to 1992



Breaking down the redistributive nature of the change in bills this year, we can see from Table 3 that almost no household in the bottom 20% of the income distribution will lose as they are nearly all receiving benefit. As income rises the number of losers rises until there are more losers than gainers in the top 20% of the income distribution.

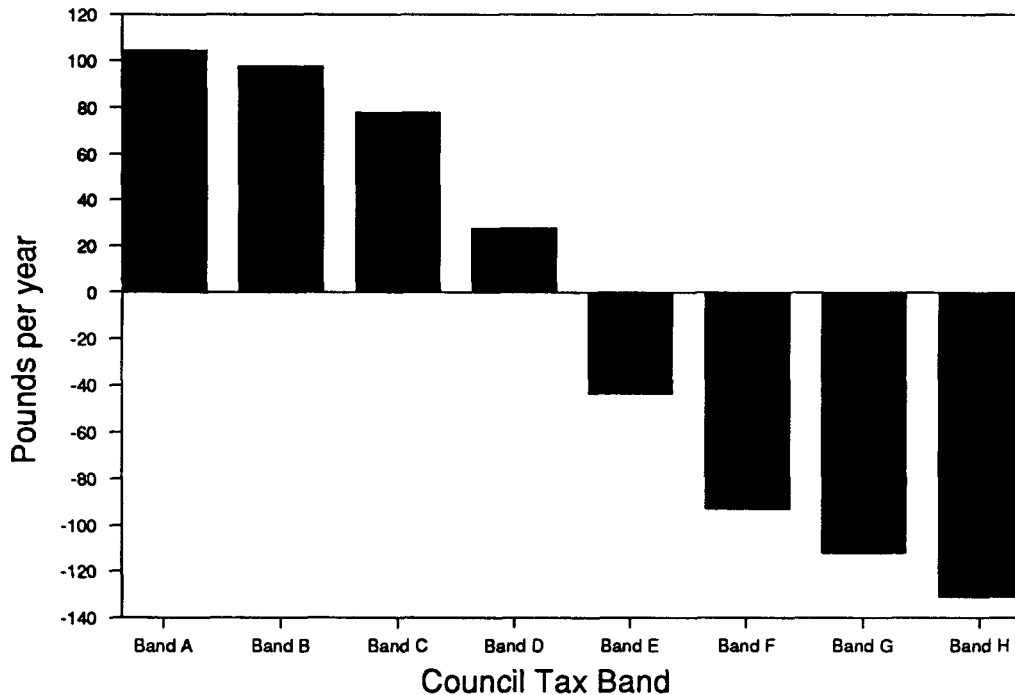
Table 3.
Gainers and Losers by Net Income (adjusted for household size)

	Lose more than £50 per year (%)	Lose between £2.50 and £50 per year (%)	No change (%)	Gain between £2.50 and £50 per year (%)	Gain over £50 per year (%)	TOTAL (%)
Poorest 10%	1.38	0.78	0.68	19.87	77.28	100
2nd 10%	1.76	1.70	0.62	31.31	64.62	100
3rd 10%	5.81	7.77	3.07	24.83	58.53	100
4th 10%	17.07	12.85	1.73	15.40	52.94	100
5th 10%	18.75	11.82	1.78	15.21	52.44	100
6th 10%	21.67	15.96	2.29	12.96	47.12	100
7th 10%	29.35	14.66	2.30	11.49	42.21	100
8th 10%	31.72	14.24	1.82	11.81	40.42	100
9th 10%	40.39	15.26	1.83	9.60	32.93	100
Richest 10%	57.65	10.37	1.08	9.24	21.66	100
All Households	23.21	10.71	1.73	15.93	48.43	100

The lower the Council Tax band, the bigger the gain

Figure 16 shows the gains and losses per year from the change classified by the band into which properties fall. Properties in lower bands gain whilst those in higher bands lose. As the numbers of properties in each band are not equal, and relatively few properties fall into bands E to H, this graph is consistent with Figure 15 showing only the richest 10% losing. The losses in higher bands are much smaller than on the revenue neutral comparison because of transitional relief which limits the losses that any household can face.

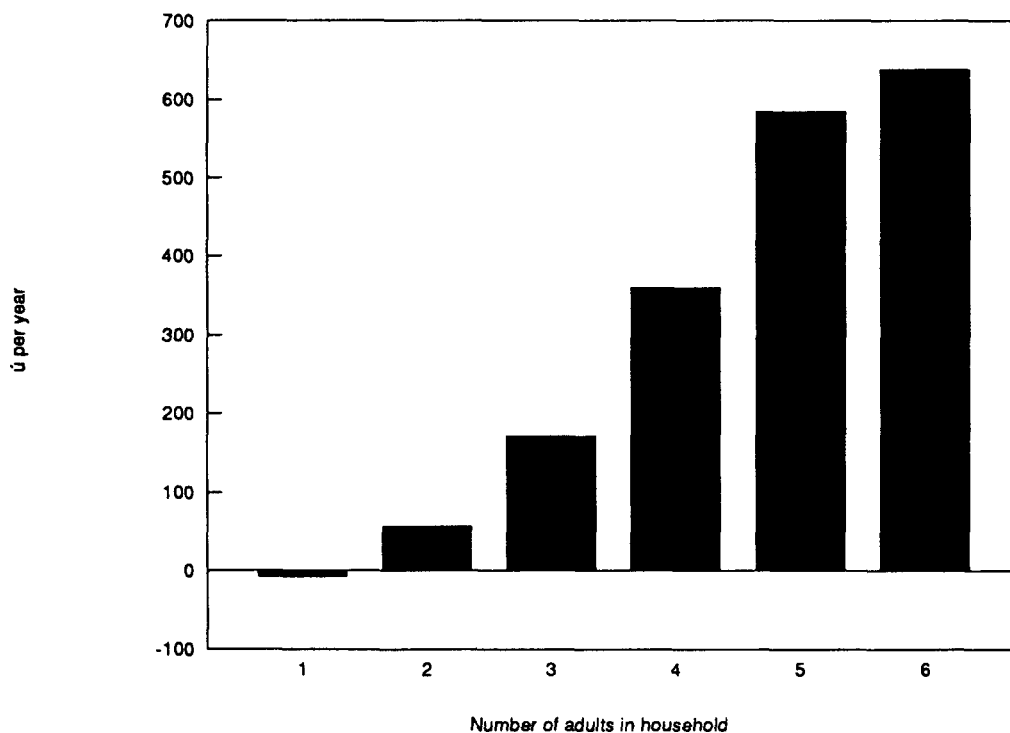
Figure 16
Gains and Losses by Council Tax Band



Large households gain the most

Finally, Figure 17 confirms the finding in Table 3 and the finding from the revenue neutral calculation that large households, often those that contain more than one family type, gain the most. It also shows that single person households have not been fully compensated by the 25% single person discount as they still lose on average. However, not all single person households lose because if their property is in a low band they could still end up paying less than under the Poll Tax or if they receive Council Tax Benefit, they will also gain. This applies to over 50% of single person households.

Figure 17
Difference in Bills in 1993 Compared to 1992,
by Number of Adults in a Household



6. Conclusion

The question we have addressed in this report is, has the Government "got it right this time"? Will the Council Tax overcome the problems that have plagued local taxation over the last 20 years or more?

There is a two-part answer to this question. First, the Council Tax has a number of advantages over the Poll Tax. It will be far easier to collect - properties tend to remain in one place - and it ought to be cheaper to administer in the long-run. Further, the introduction of the Council Tax coincides with significant changes in the benefit system. As a result of the removal of minimum payments, the poorest households no longer have to make a contribution towards local taxation. Again, this makes the tax easier for local authorities to administer, and for many it makes the tax more acceptable. In brief, the Council Tax will bring local authority revenue-collecting on to a far more even keel compared to the instability created by the Poll Tax. Further, the Government has learned a lesson from the debacle over the introduction of the Poll Tax, where in the first year average local tax bills rose by nearly 30%. This year average bills will fall by 6% - two-thirds of households will gain and those that lose will probably be able to afford it.

On the other hand, as far as the Council Tax is concerned, three substantial issues appear to remain unresolved.

(i) If the provisions in the central government grant for resource equalisation are insufficient, then unacceptable differences in Council Tax bills could arise for households in the same bands facing similar levels of spending but residing in neighbouring local authorities. In Section 3 we showed the consequences this year of the Government's partial equalisation system. Households in some areas will be paying twice as much as similar band households in other areas for the same marginal

spending. This inequity could be magnified the more revenue is raised from the tax. To overcome this inequity full resource equalisation would be required.

(ii) Our analysis on the distribution of the Council Tax in Section 4 indicates that the tax is inherently regressive. It follows that, even with equalisation grants, the amount of revenue that can be raised from the Council Tax will be limited. Although the current level of revenue raised through the Council Tax can be achieved without obvious inequity and public discontent, it would be unrealistic to expect the Council Tax to raise a substantially higher proportion of local authority financial resources. This means that if the Council Tax is to remain the only source of income of which local authorities have control then the Government may be forced into a position where it has to keep a tight rein on local authority spending through the capping criteria (the solution of the early 1980s and early 1990s) or be relatively generous each year with its overall grant allocation (the early 1970s' solution).

(iii) There is also some concern about the Government's current policy position on the revaluation of properties. The Government has argued that the property band widths used for the Council Tax are sufficiently wide to dampen significantly any substantial change in relative house prices that may occur over time. It is our impression that the Government is over-optimistic about the ability of the banding system to deal with future changes in relative house prices. In Section 3 we calculated the effect of recent price changes on local authorities' tax bases and subsequently on regional tax bills. Our evidence indicates that even over the relatively short period of one year, the regional distribution of the local tax burden would have changed significantly. We see a strong case for frequent revaluations of properties for Council Tax purposes.

In summary, with two-thirds of households gaining in the first year from the introduction of the Council Tax, it is likely that the tax will be well received. Further, local authorities will find that collection is substantially easier than the Poll Tax. However, the Council Tax is a highly regressive tax made palatable only by a generous benefit system. It raises only a small proportion of local authority revenues and the Council Tax could soon become very unpopular if it were required to raise a significantly greater proportion of revenues in the future.

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