Resolution Foundation

Intergenerational Commission

REPORT

MARCH 2018

Adam Corlett & Laura Gardiner

HOME AFFAIRS

Options for reforming property taxation

intergencommission.org

@resfoundation

Contents

Acknowledgements

The authors would like to thank John Muellbauer (Nuffield College, Oxford University) and Kate Barker for comments on an earlier version of this report, and Donal de Buitleir at Publicpolicy.ie for insights on the Irish property tax system. Any errors remain the authors' own.

Executive summary

Over the past 18 months research for the Intergenerational Commission has illustrated that, in a range of areas, the assumption that each generation will do better than the one before it is under pressure.

This paper is one of a series that moves beyond the diagnosis of these problems to consider what action is needed to address generational living standards challenges. The Intergenerational Commission's final report later this year will recommend a specific suite of reforms across a broad range of policy areas. In this paper, we present *policy options* that incorporate ideas from leading thinkers, history and abroad, and set out the strengths and weaknesses of different policy approaches. Our focus here is residential property tax reform.

How we tax residential property matters for a range of reasons that are core to the Intergenerational Commission's diagnosis of a growing generational living standards divide. Property taxation affects the levels of revenue available for public services; people's disposable incomes; the wealth distribution itself; and the efficiency and volatility of the housing market. A commonly held view, however, is that the main property taxes we have – council tax and stamp duty – leave a huge amount of room for improvement.

Britain's fiscal challenge in the decades ahead necessitates a focus on our dysfunctional property taxes

Despite years of spending cuts and recent signs that the government's current budget may reach balance next year, Britain faces a fiscal challenge in the coming decades. Our ageing population means a requirement for additional public spending on health and care in particular. In just over a decade (by 2030) the additional annual spending requirement to maintain current levels of state provision amounts to £20 billion per year, rising to £60 billion in 2040. Relying on the usual income and consumption taxes that fall mainly on working-age populations to meet these costs appears much more challenging than it may have in the past, given younger cohorts are experiencing little or no living standards progress on their predecessors at the same age.

In searching for ways to spread the burden, an obvious avenue is Britain's growing stock of wealth that is increasingly concentrated among members of older generations who will be the main beneficiaries of additional public spending. Wealth is particularly ripe for attention when we consider that while it has grown 2.5 times faster than the economy since 1980, wealth-related taxes have remained flat. Three-quarters of wealth taxation of households in the UK was made up by council tax and residential stamp duty in 2016, totalling £30.4 billion and £8.6 billion respectively. This paper therefore focuses on these taxes in Great Britain and on council tax in particular, given that the failure of wealth taxation to keep up with wealth is in a large part down to council tax falling far short of what most people would think of as a functioning property tax.

Council tax has come to look very like the poll tax it replaced

There are a number of principles on which to base property taxation, including matching the treatment of other income or consumption through income tax and VAT, better taxing wealth windfalls, or taxing land because its supply is relatively inelastic and its value derived from community inputs. All of these theoretical approaches imply that property taxes should be clearly linked to property value. However, council tax is only weakly linked to property values and has failed to capture changes in these over time. This approach is highly regressive. For example, someone living in a property worth £100,000 in 2015-16 had around five times the effective tax rate (council tax relative to property value) of someone living in a property worth £1 million. This regressivity derives from the following features of council tax:

- **The existence of wide bands in which council tax bills in a given area are exactly the same**: Council tax is levied equally within eight bands (nine in Wales). This means that the lowest-value properties in each band have a significantly higher effective tax rate than the highest-value properties in each band. For example, the lowest-value tenth of properties in band A in the North East of England were worth £65,000 or less in 2015-16 while the highest-value tenth were worth at least double at £130,000 or more. Given they faced the same tax bill, this resulted in effective council tax rates at least twice as high at the bottom of the band as at the top.

- **The small differences in council tax rates between bands**: Specifically, regressivity results from the fact that the council tax differences between bands (which are fixed at the national level) have throughout its existence been much smaller than the differences in property values themselves. For example, in 2015-16 typical (median) gross council tax bills in Great Britain were 3.3 times as high in band H as in band A (£2,595 and £775 respectively). By contrast, typical property values were 6.8 times as high (£750,000 and £110,000 respectively).

- **The fact that council tax is based on severely out-of-date property values**: Council tax bands are based on property values that are 27 years out of date (15 years in Wales). Because the value of some properties has grown at a very different rate to others over this period, inequities between individual properties have emerged, and particularly between regions that have experienced different house price trends. For example, rapid house price growth in London means that only 36 per cent of properties in the capital worth above the national average today were placed in the top four council tax bands in 1991. By contrast, in the North West 67 per cent of above-national-average properties are in the four most expensive council tax bands.

- **Regional variation in council tax rates**: Very different property values in different areas of the country mean that higher-value areas (in which a greater share of properties are in top bands) can set council tax lower in order to fund a given level of services. Combined with the regressive nature of the band structure and out-of-date valuations, this drives much lower effective council tax rates in the South of England than elsewhere. For example, in 2015-16 the typical net council tax bill (i.e. accounting for council tax reduction schemes) was around 10 per cent higher in London than in the North East, however typical property values were 220 per cent higher.

Together, these features of council tax result in regional and distributional inequities on average. But their combined effects drive even more severe injustices when individual households are compared. For example, a search of property comparison websites shows that a three-bedroom flat for sale for £2.1 million in South London faces a council tax bill of £700 per year. In contrast, another three-bedroom flat for sale just one mile away at less than one-fifth of the price (£400,000) faces a council tax bill of £1,160 per year, 66 per cent higher.

The regressive nature of council tax is in stark contrast to the progressive structure of income tax: average net council tax is only 2.7 times higher for the top 10 per cent of properties than the bottom 10 per cent, whereas average income tax is 45 times higher in the top income decile than the bottom one. In fact, apart from things like TV licences, there's no other large UK tax that replicates council tax's peculiar 'flatness'. It appears that despite replacing the unpopular 'poll tax' (community charge) council tax has come to look increasingly like it.

Britain's property taxes are highest for the young and drive inefficient housing outcomes – doubly disadvantaging young adults

From a generational perspective, it is important to note that the regressivity of the council tax system falls hardest on the young and especially on the current generation of young adults, who are more likely than their predecessors to live in the lowest (most regressive) council tax bands. 85 per cent of households in their 20s in Great Britain lived in the bottom three council tax bands in 2015-16, compared to 79 per cent 19 years earlier. The result is that as a proportion of property value – and even more so as a proportion of property wealth given low home ownership among younger cohorts – council tax has become most generous to older households.

Not only does council tax fail to capture the large housing wealth gains of recent decades, it also actively makes the housing market less efficient. Second homes and empty properties are, on the whole, still subsidised; consumption of large houses is under-taxed relative to consumption of smaller ones; and property is under-taxed relative to other investments. These and other features have boosted house prices and led to inefficient stock allocation, both of which have affected younger generations in particular in terms of entry into home ownership and the fact they have less space than predecessors.

Our other tax on property, as a transaction tax, adds to these housing market inefficiencies. Residential stamp duty discourages families from downsizing or moving areas and has little to commend it economically. But stamp duty does raise substantial revenue and is – unlike council tax – both related to current property values and very progressive. The main impact of any cuts to stamp duty – if done in isolation – would be large windfall gains for wealthy home owners in London and the South East.

Changes to council tax within the existing band structure could make it somewhat less regressive

Some reform is possible within the framework of the existing council tax system, and many approaches have been suggested in recent years. In Wales, a small additional band was added for a minority of high-value properties; and Labour and the Liberal Democrats have proposed a 'mansion tax' for the most expensive homes. We find that these policies, if applied across England and Great Britain respectively, would raise relatively little revenue (up to just over £1 billion), but their impact would be focused on the top-fifth of the income distribution, London and the South East.

In Scotland, council tax in the top four bands has recently increased. We find that this approach would raise £1.1 billion if replicated in England and Wales. Going further, proposals along the lines of those made by Labour MP Chris Williamson – involving much bigger council tax increases in top bands including a doubling at the very top

– could raise £6.6 billion in additional revenues across Britain, but would inevitably increase taxes for a large number of people. All of these changes would have the largest impact on the top parts of the income distribution and on older households.

However, these and other similar reforms that have been proposed within the existing council tax band structure would still leave a regressive tax relative to property values, crude banding, and an unchanging 1991 valuation (2003 in Wales). And, other than the 'Williamson' model, few would make a significant contribution to our fiscal challenge. More fundamental reform is likely needed.

Abolishing council tax and replacing it with a proportional or progressive property tax would more fully address its problems

Property taxation reform is often seen as particularly politically challenging, and history provides caution regarding reforms to local government financing. But, equally, council tax is little-loved and bears many of the features of the unpopular poll tax it replaced. And there is a strong consensus among those who have made proposals for replacing council tax about what a replacement should look like. In addition, there are lots of international examples of better-functioning property taxes to draw on. Finally, while the challenge of frequent valuations has long been considered a barrier to reform, new technology and mechanisms for feedback from taxpayers used in other countries mean that revaluation is now nothing like the challenge it might have been in the 20th century. We should therefore not be overly pessimistic about the potential for a better recurrent property tax system.

To illustrate the potential for the replacement of council tax, we model five example policies (though many more variations are of course possible). Across these options, we assume no single person discounts, no favourable treatment of second and empty homes, and no student exemptions, with the suggestion that some in these groups could instead be supported via other means. All these options would raise additional revenues that could be used to meet growing health and care costs, to reduce stamp duty and to better support property taxpayers on low incomes via the benefits system:

- A **proportional tax of 0.5 per cent** of capital value, boosting annual revenues in Great Britain in 2015-16 by £1.6 billion compared to council tax.
- A slightly higher **proportional tax of 0.7 per cent**, boosting revenues by £12.7 billion.
- A **1 per cent tax rate with a £100,000 tax-free allowance per property**, which in 2015-16 would have meant no tax for the bottom 14 per cent of properties nationally and would make effective tax rates progressive above this. This would boost revenue by £8.6 billion.
- A **1 per cent tax rate with a regionally-specific tax-free allowance per property**. To account for large geographic variation in house prices, it would be possible to set allowances so as to make the least valuable 10 per cent of properties

in each region tax free. These allowances range (in 2015-16) from £72,000 in the North East to £160,000 in the South East and £240,000 in London. This system would raise £3.8 billion in additional revenues.

- **Tax bands of 1 per cent and 2 per cent, with a regionally-specific tax-free allowance per property**. To illustrate the potential for multiple tax rates – which exist in some countries – we add to the above option a higher rate of 2 per cent on marginal property values above £500,000. This system would raise £8.4 billion.

In all except the option of a proportional tax of 0.7 per cent (which raises the most money), the large majority of households would be better off as a result of these reforms, and average disposable incomes would be boosted for the bottom half of the income distribution. Outside the South of England, average incomes would rise in each region (except under the 0.7 per cent proportional tax) and renters and those in their 20s experience either average income gains or much smaller losses than others. Focusing on the final example that includes both regionally-specific allowances and 1 per cent and 2 per cent tax bands, the majority of people in each region apart from London would be better off, and even in London 38 per cent of households would have lower tax bills. The large majority of each age group would also be better off under this option in comparison to the current council tax system, including 73 per cent of 20-29 year olds and 63 per cent of 60-69 year olds. However, among the roughly one-third of households nationally (9 million) that would pay more tax, average losses would be relatively substantial at just under £2,000 per year, and for some the losses would be larger still.

It is important to note that our modelling doesn't account for any 'dynamic' effects, however. Changes in property taxes can be expected to be partially 'capitalised' through one-off changes in house prices. The implication is that revenues raised and the impacts on annual disposable incomes (both positive and negative) would be somewhat smaller than modelled here, but this analysis nonetheless provides a useful guide as to the scale and incidence of alternative options.

A reformed recurrent property tax might allow for reductions in residential stamp duty. This is expected to raise £7.4 billion next year (excluding higher charges on additional properties). Clearly then, the options above would allow very significant cuts in the form of threshold increases, rate cuts or both. In the long run such stamp duty cuts would partially offset tax increases for owners of valuable properties from the move to a proportional or progressive property tax.

Beyond rates and allowances, property taxation in Britain could be improved in a range of other ways

Any major reform to property taxation raises a number of questions, not least in terms of how a new system would be brought in. A period of transition would seem advisable and necessary, but is not something this analysis considers in detail.

An oft-discussed idea is whether taxing land values would be a better alternative to taxing property values. One challenge would be that it is likely to be practically more difficult to regularly value land than residential property. Beyond this practicality and the separate-but-related question of how vacant land is taxed, this decision appears rather less consequential than others regarding a replacement for council tax, given that property values and land values are generally closely related. The proportionality of tax, regular revaluation and the considerations below are more fundamental.

The degree of local variation in property taxation is critical to its incidence and – arguably – to local democracy. This is wrapped up with the local government finance settlement process and the level of redistribution between authorities, which would need to increase under a more progressive residential property tax system. This paper does not set out in detail how these elements of the system should be structured, but implicit in our illustrative policies is the idea that national government would play the lead role in setting the rate of property tax, perhaps with some regional differences. On top of this, tacking back closer to the existing system and matching the Irish model, some capacity for local variation could be maintained. For example, local authorities could have the ability to vary the tax rate within set limits, and bear responsibility for managing the increased or reduced revenues resulting from these decisions.

Some changes are worth considering under both the existing council tax system and any replacement of it. A particularly important consideration is whether the direct burden of tax should move from occupiers to property owners. This is the more common international approach, and the potential administrative savings (both for individuals and councils) could be significant. Owners change less frequently than tenants and social and private landlords could streamline the payment of taxes that are currently made separately by millions of people and which result in remarkable volumes of arrears and court action.

The importance of council tax reduction for those on low incomes should also be stressed. Although making property tax less regressive would somewhat reduce the need for such support, means-tested help can play a crucial role in making property tax progressive by income as well as by property value. Support, however, was cut significantly for poorer working-age families in England when the system was localised in 2013, and minimum payments – where some tax is due regardless of income – are now common. Any reform should seek to at least return to earlier levels of support – which would reduce additional revenues under the final policy alternative described above by around £1 billion – and could go further still. Reform could also provide the opportunity to reconsider the costs and inefficiencies of keeping the administration of council tax reduction schemes separate from Universal Credit.

Finally, there is a strong case for allowing deferral of payment or the ability to pay in kind in the form of an equity share of property. Alongside enhanced support via the benefits system, this would protect ‘cash-poor, asset-rich’ older households, and could even be a means of making equity release more accessible than it is at present.

A far better property tax, stamp duty cuts and additional revenues for health and care are possible

Clearly there are a wide range of choices within any reforms to council tax and stamp duty, and policy needs may vary across the nations of Great Britain. Indeed, as it stands Scotland and Wales have the power to make changes within the existing system that they could make more use of.

Focusing on an alternative system nationally, we note that an approach including regional variation in allowances and a progressive structure would raise an estimated £7.4 billion a year nationally even after allowing a reversal of cuts to council tax reduction. Some of these revenues could be used to halve residential stamp duty rates for primary residences at a cost of £3.2 billion, leaving over £4 billion for health and care costs or other spending priorities.

Even while raising taxes overall, and before considering the impacts of lower stamp duty, a replacement recurrent property tax could easily leave a large majority of voters better off. In addition, all those not able to own their own home could be taken out of the system entirely, and where necessary taxes could be deferred until death leaving many more with no annual bill. A tax based on timely valuations would dampen changes in property prices, and provide an improved link between tax revenues and new public investments that boost property values. A fairer property tax system – intergenerationally, distributionally and regionally – that also makes the housing market more efficient and less volatile is an achievable end.

i Summary of key policy options for consideration

Some progress can be made via tweaks to the existing council tax structure, but in the longer term the abolition and replacement of council tax with a proportional or progressive system would more fully address its many problems. From least to most ambitious, the approaches worth considering include:

» Increasing council tax on the very highest-value properties, for example by replicating reforms in Wales where an additional band was added, or by introducing a 'mansion tax' on properties worth over £2 million.

» Changing the rates of council tax charged in certain bands, for example by increasing rates or removing single person discounts in the top bands, potentially offset by lower rates in the bottom bands.

» Abolishing council tax and replacing it with a property tax related to up-to-date values based on regular revaluations. This new tax could be either proportional to value or progressive via tax-free allowances and differential rates, and potentially allow for some regional variation.

As part of any of these changes, policy makers should consider:

» Ending discounts for second homes, empty properties and single-adult households, and helping low-income groups through other means.

» Using some of the additional revenues from the reform or replacement of council tax to reduce stamp duty.

In addition, there are a number of key questions that must be addressed in the process of reforming property taxation. With a view to making reforms as fair and feasible as possible, changes could include:

» Allowing local authorities to vary the main property tax rate, within limits.

» Basing a new tax on property rather than land values.

» Basing a new tax on capital rather than rental values.

» Moving property taxation to owners rather than occupiers.

» Increasing the generosity and efficiency of income-based means-tested support for property taxes.

» Making property tax payment more convenient by facilitating payment direct through PAYE and other income sources.

» Allowing deferral of payment, or payment in the form of an equity stake.

Section 1

Introduction

Previous analysis for the Intergenerational Commission has detailed the stalling of cohort-on-cohort living standards progress across incomes, housing and wealth. In this introductory section we briefly recount the headline findings from this analysis, and indicate the ways in which they relate to Britain's past and future approach to property taxation.

This report – one of a series of policy options papers for the Intergenerational Commission – looks through a generational lens at possibilities for reforming Britain's system of property taxation.

The assessment presented here is formed with an appreciation of previous analysis for the Intergenerational Commission showing that generation-on-generation living standards progress has stalled in Britain in a range of areas. Incomes for millennials (born 1981-2000) who've so far reached 30 are little improved on those for generation X (born 1966-80) at the same age: a result of both the specific impact of the crisis and longer-term factors.[1] Housing costs have put pressure on living standards across generations, with today's younger cohorts particularly squeezed, and home ownership rates have declined for every cohort since those born in 1946-50.[2] Household wealth is also lower than predecessors had at the same age for all cohorts born since 1955, due in no small part to large unearned, and largely untaxed, windfalls from rising property values which younger cohorts missed out on.[3]

The conclusions of the analysis conducted for the Intergenerational Commission are clear: Britain has a crisis of intergenerational progress, and fixing it is about more than the millennials and the financial crisis. In particular, we need to recognise deeper challenges that have borne down on generational progress for far longer than intergenerational issues have been high up the agenda. Foremost among these are issues of housing costs and housing wealth accumulation, to which the taxation of housing is clearly a contributing factor. And given their recent living standards experience, we need to challenge the assumption that new fiscal pressures from an ageing population will be met via the taxation of working age cohorts – be that through their consumption or income – bringing wealth taxation under the spotlight.

1 A Corlett, As time goes by: Shifting incomes and inequality between and within generations, Resolution Foundation, February 2017

2 A Corlett and L Judge, Home affront: Housing across the generations, Resolution Foundation, September 2017

3 C D'Arcy & L Gardiner, The generation of wealth: Asset accumulation across and within cohorts, Resolution Foundation, June 2017

As such, this paper considers the appropriateness of the current property taxation system – council tax and (to a lesser extent) stamp duty – and options for reform. It is set out over four further sections, as follows:

- **Section 2** describes Britain's current approach to property taxation and the problems it presents from a generational perspective, in light of mounting fiscal pressures that underscore the need for greater revenue-raising.
- **Section 3** sets out possible options for reforming property tax, including detailed modelling of the revenue raised by different systems and the incidence of change across various demographic groups.
- **Section 4** discusses other factors that need to be considered in the move to a reformed property tax system, including levels of localisation and the role of the benefit system in offsetting taxes for those with low incomes.
- **Section 5** concludes.

Section 2

Britain's property taxation problem

This section sets out the problems with Britain's current approach to property taxation – council tax and stamp duty – from fiscal, economic efficiency, distributional equity and generational equity perspectives.

From a fiscal perspective, it's clear that Britain's ageing population means additional revenues will be required for health, care and social security in years to come, and relying only on taxes that fall largely on working-age cohorts to meet these costs appears challenging. Thus a new focus on capital taxation (of which property taxes form the major part) is warranted, especially because capital tax revenues have failed to keep up with rising household wealth in recent decades. What's more, Britain's current approach to property taxation falls short from the perspective of economic good practice, by treating housing consumption or investment in property more favourably than other goods and assets.

In terms of equity, while stamp duty is progressive, Britain's main property tax – council tax – is highly regressive in relation to property values. This is due to flat tax bills within bands; small differences in tax bills between bands; regional variation; and severely out of date valuations that have served to amplify council tax's regressivity over time. As a result, council tax has a peculiar 'flatness' compared to almost any other tax, and has come to look increasingly like the poll tax it replaced. As well as across regions and income and property value distributions, these inequities play out across generations. By incentivising over-consumption of housing and reducing mobility, council tax and stamp duty have contributed to adverse housing market outcomes that have particularly affected younger generations. As a result, young adults are increasingly concentrated in lower (more regressive) council tax bands compared to their predecessors at the same age, and now have higher effective council tax rates than older households.

Maintaining Britain's welfare state requires raising more money, and there's an imperative to shift the taxation balance towards wealth

Previous analysis for the Intergenerational Commission has established the challenge facing Britain's welfare state. Our ageing society – driven by rising longevity but accelerated in the current decades by the passage of the large baby boomer generation (born 1946-65) from working age into retirement – creates fiscal pressures. This is because an increasing share of the population is in childhood or old age, when we tend to draw on the welfare state, and a declining share is of working age, when we tend to pay in via taxation. On top of this, non-demographic factors are also expected to increase health costs relative to the rest of the economy. The combination of these trends means that health spending is forecast to grow by 1.5 per cent a year faster than GDP.[4] In just over a decade (by 2030) this equates to an additional £20 billion of spending per year if current levels of state provision are maintained, rising to £60 billion a decade later in 2040.[5]

4 G Bangham, D Finch & T Phillips, *A welfare generation: Lifetime welfare transfers between generations*, Resolution Foundation, February 2018

5 D Willetts, 'Baby boomers are going to have to pay more tax on their wealth to fund health and social care', *Resolution Foundation blog*, 5 March 2018

The choices facing policy-makers for dealing with this challenge are tough. Maintaining the current tax and spending profile with no other action would mean debt rising to 230 per cent of GDP by the 2060s, an approach that essentially passes the costs on to future generations and cannot be sustained indefinitely. A second option is cutting welfare provision such that spending doesn't rise relative to GDP, but this would represent both a massive retrenchment of the welfare state and result in clear generational inequities. In this scenario the 1961-65 cohort is projected to have an average lifetime 'net withdrawal' from the welfare state twice as large as that of the 1991-95 cohort.[6] The final option is to meet these costs via taxation which would mean tax as a share of GDP rising over the coming decades – not in itself impossible but certainly a huge shift.

In truth policy makers are likely to have to strike a balance between these three options. In doing so, it appears essential to question the assumption that any increase in taxes falls mainly on the income and consumption of current and future working age populations, as the current age-profile of taxation implies. In the past this assumption may have been justified on the basis that successive cohorts were recording much higher incomes than predecessors, but it is more challenging at a time when younger cohorts in working age are experiencing little or no living standards progress on their predecessors at the same age. Consider, for example, that the £60 billion of additional spending required by 2040 equates to a 15p increase in the basic rate of income tax.[7]

This focus on whose taxes meet these rising costs is particularly important given new costs relate to providing healthcare and social security to older cohorts. In searching for ways to spread the burden, an obvious avenue is Britain's growing stock of wealth. Previous Intergenerational Commission analysis has shown that this wealth is increasingly concentrated in older generations overall, while remaining very unequally distributed within both younger and older age groups.[8] The virtue of a focus on wealth is therefore that it has the potential to shift the age profile of taxation somewhat without putting pressure on poorer members of older generations.

Britain's huge wealth increases have gone untaxed, largely because taxes on property bear little relation to its value

The age-profile of wealth – set against the living standards challenges younger generations are experiencing – is not the only reason why we might look to it as a potential source of revenues to meet fiscal challenges. Just as important from broader economic efficiency and fairness perspectives is the fact that wealth goes increasingly untaxed in Britain. While net household wealth (property, financial and physical assets and private pensions) has increased 2.5 times faster than GDP since 1980, wealth-related taxes have remained flat, as Figure 1 shows.

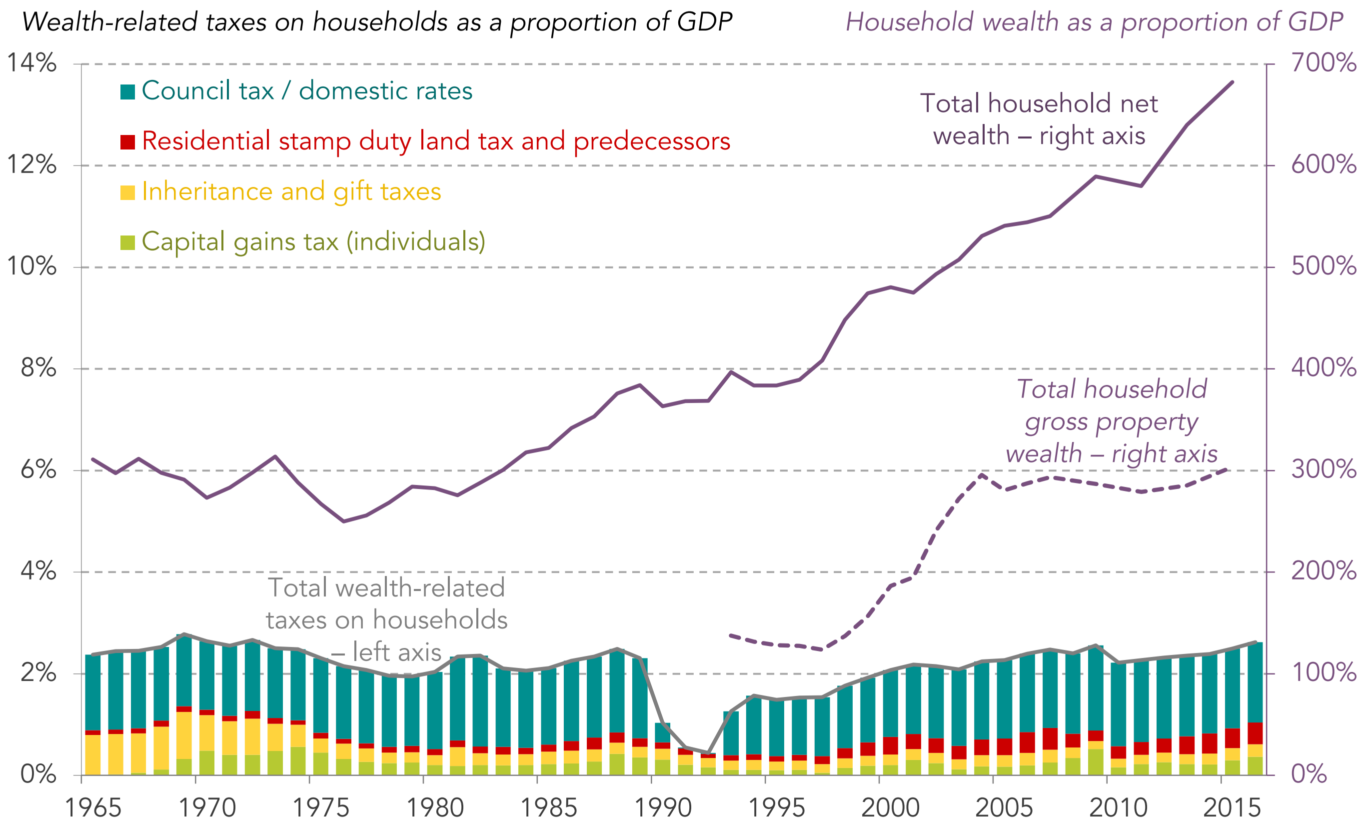
6 G Bangham, D Finch & T Phillips, *A welfare generation: Lifetime welfare transfers between generations*, Resolution Foundation, February 2018

7 D Willetts, 'Baby boomers are going to have to pay more tax on their wealth to fund health and social care', *Resolution Foundation blog*, 5 March 2018

8 C D'Arcy & L Gardiner, *The generation of wealth: Asset accumulation across and within cohorts*, Resolution Foundation, June 2017

Figure 1: **Wealth has risen in relation to GDP while wealth taxes have remained flat**

Aggregate wealth and wealth-related taxes as proportions of GDP: GB/UK



Notes: Total household net wealth covers net property wealth, net financial wealth, private pension wealth and physical wealth, and is estimated by indexing data from the *Wealth and Assets Survey* (GB) backwards using National Accounts (UK, property and financial wealth only) and Blake & Orszag (UK) wealth measures. Total household gross housing wealth is estimated by indexing data from the *Wealth and Assets Survey* (GB) backwards using data from the *British Household Panel Survey* (GB). Tax and GDP data cover the UK. The division of overall stamp duties between residential and other stamp duties is estimated prior to 2009 based on the relative size of each in 2009. From the standard measures of taxes on property adopted by the OECD we exclude business rates and non-residential and financial stamp duties (because these are generally not paid by households), but include capital gains taxes on individuals.

Source: RF analysis of ONS, *Wealth in Great Britain*; ISER, *British Household Panel Survey*; ONS, *UK National Accounts*; D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', *Applied Financial Economics* 9, 1999; OECD.Stat

Focusing first on the growth in household wealth, Figure 1 makes clear that a fundamental driver of the increase from the early 1990s to the early 2000s was rising gross property wealth (with previous Resolution Foundation analysis showing that private pensions have driven growth since, due to improved life expectancy and low interest rates inflating the implicit value of prior pension promises[9]). Household surveys now value the stock of gross property wealth at over three times total GDP.[10] Reflecting the well-known story of rising house prices, it's clear that wealth in general and property wealth in particular play a growing role in Britain.

9 These prior pension promises relate to current or retained defined benefit pension schemes, and pensions already in payment. See: C D'Arcy & L Gardiner, [The generation of wealth: asset accumulation across and within cohorts](), Resolution Foundation, June 2017

10 National Accounts-based measures of the stock of gross housing wealth (£5.4 trillion) give a similar figure of 275 per cent of annual GDP. Source: Office for National Statistics, *UK National Accounts*

Box 1: Britain's property taxes: Council tax and stamp duty

Prior to the 1990s the UK's domestic property tax was the domestic rates system, under which a percentage of the property's implied rental value was charged by local authorities.[1] This mean that the tax was fairly closely linked to property values, although this was complicated by local variation, a system of rebates and a lack of revaluation after 1973. The average bill in 1984, for example, was around 1.15 per cent of the average capital value (£26,750[2]) before rebates (and 0.91 per cent after rebates).[3]

Domestic rates were briefly replaced in Great Britain by the community charge (or 'poll tax'). Following the infamous unpopularity of this, council tax was introduced in 1993-94 as something of a hybrid between the poll tax and domestic rates. It was explicitly to be seen as partly a charge for services provided by local government; in contrast to the looser – and more progressive – relationship between most taxes and public services.

Today, council tax – together with the domestic rates system that persists in Northern Ireland – raises around £30 billion a year; making it the fifth-largest tax in the UK, though far smaller than the biggest (income tax, National Insurance and VAT). Council tax in England and Scotland places households into eight bands – from A to H – based on the estimated value of the property on 1 April 1991 (regardless of whether or not it existed at the time). Fixed ratios between bands – rising with property values but not in proportion to them by any means – determine tax differentials. In Wales, a revaluation took place in 2003 when a new top band – band I – was also introduced.

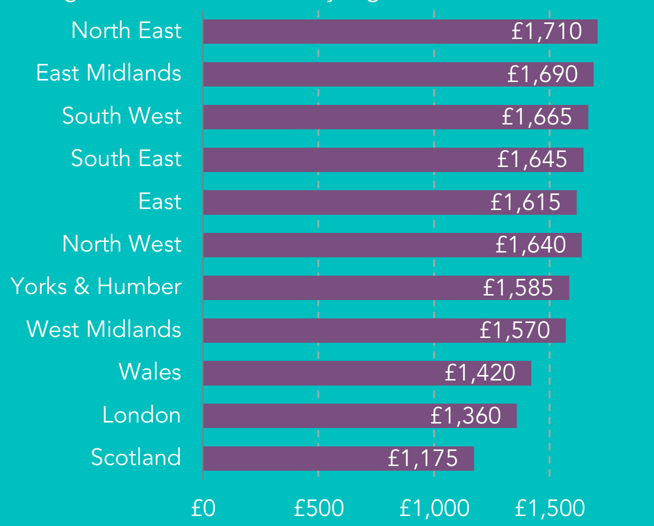
Where a property has only a single occupant there is a 25 per cent single person discount, and households containing only students are exempt. In addition there is a localised system of council tax reduction that provides (some) support to those on low incomes. This localised system replaced Council Tax Benefit in 2013, with councils in England absorbing a 10 per cent cut in funding which they most commonly passed on to working-age recipients via measures such as minimum payments. Empty homes and second homes have historically received exemptions or discounts on their tax bills. While in recent years local authorities have been given the power to levy higher taxes on second homes and some empty homes, in aggregate they continue to be subsidised relative to main residences.

Local authorities have the power to set band D rates in order to determine their revenues raised. This is done after they know how much they will get from central government through the local government finance settlement process (which includes some redistribution between local authorities).[4]

Figure 2 sets out average band D council tax in each region.

Figure 2: **Band D council tax bills are highest in the North East and lowest in Scotland and London**

Average band D council tax, by region: 2017-18



Notes: Regional averages are based on the average across local authorities in each region, weighed by each local authority's council tax base.

Source: DCLG, *Council Tax statistics*; Welsh Government; Scottish Government

Council tax is not the only domestic property tax. Although the taxation of landlords' rental income, and some capital gains (though most domestic property is exempt) are important, stamp duty land tax is the other key one and of high political salience. Having raised £8.6 billion in 2016-17, stamp duty on residential property is forecast to raise £10 billion this year (including £2 billion from a surcharge on additional properties[5]). Marginal stamp duty rates in England range from zero for (present) values up to £125,000 (£300,000 for first time buyers), to 2 per cent up to £250,000, all the way up to 12 per cent above £1.5 million – giving the tax a very progressive structure.

1 S Smith & D Squire, Local taxes and local government, Institute for Fiscal Studies, 1987

2 Office for National Statistics/Land Registry, Table HP3, UK

3 Based on average bills (tables 3.6 and 3.8) in S Smith & D Squire, Local taxes and local government, Institute for Fiscal Studies, 1987

4 For more details, see: Department for Communities and Local Government, A guide to the local government finance settlement in England, December 2013

5 Stamp duty rates are 3 percentage points higher in each band when buying property other than one's main home.

Turning to wealth-related taxes levied on households,[11] Figure 1 shows that these haven't risen relative to the size of the economy over a 60 year period (the dip in the early 90s relating to the introduction then abolition of the community charge or 'poll tax'). In addition, it's clear that most are property-related. Three-quarters (76 per cent) of wealth taxation of households was made up by council tax and residential stamp duty in 2016 – totalling £30.4 billion and £8.6 billion respectively.[12] As the taxes that act on the consumption of housing or the ownership or transaction of property, it is these two taxes (and what might take their place in future) that this paper focuses on. As such, Box 1 provides details on how the current council tax and residential stamp duty systems operate, and their evolution.

Council tax's peculiarity as a recurrent property tax stems from the combination of a structure of rates that is not directly proportional to property value and the fact that it still relies on property valuations from 1991. Together these mean that marginal changes in value have no impact on council tax liability either for individual households or in terms of total revenues raised. As such, council tax take has failed to keep pace with gross property wealth. In the 21 years from 1995 gross property as a proportion of GDP increased 116 per cent, compared to a 43 per cent increase in council tax (driven by discretionary increases mainly during the 1990s, rather than in response to the growth in wealth itself).

This is unusual internationally. It is often highlighted that Organisation for Economic Co-operation and Development (OECD) data suggests that the UK has the highest taxes on capital among developed economies. But a large share of this is council tax, which is very much at odds with the approach in these other countries due to this peculiar nature of bearing little relation to property value.[13] And crucially, the nature of council tax means our capital tax-take has responded far less to rising property values than the experience in other countries. Focusing just on recurrent taxes on immovable property (council tax and business rates in the UK – often covered by single systems in other countries hence their treatment in combination here), Figure 3 shows that of selected advanced economies, the UK has had the third largest decline in recurrent property taxes relative to national income since 1971. However, it has experienced the third-fastest growth in house prices relative to GDP per head (and some caution should be taken in interpreting the Spanish growth rate – second fastest – given the splicing of different series together in the underlying data[14]).

11 From standard OECD measures of capital taxation we exclude business rates and non-residential and financial stamp duties, because these are generally not paid directly by households, and we include capital gains taxes on individuals.

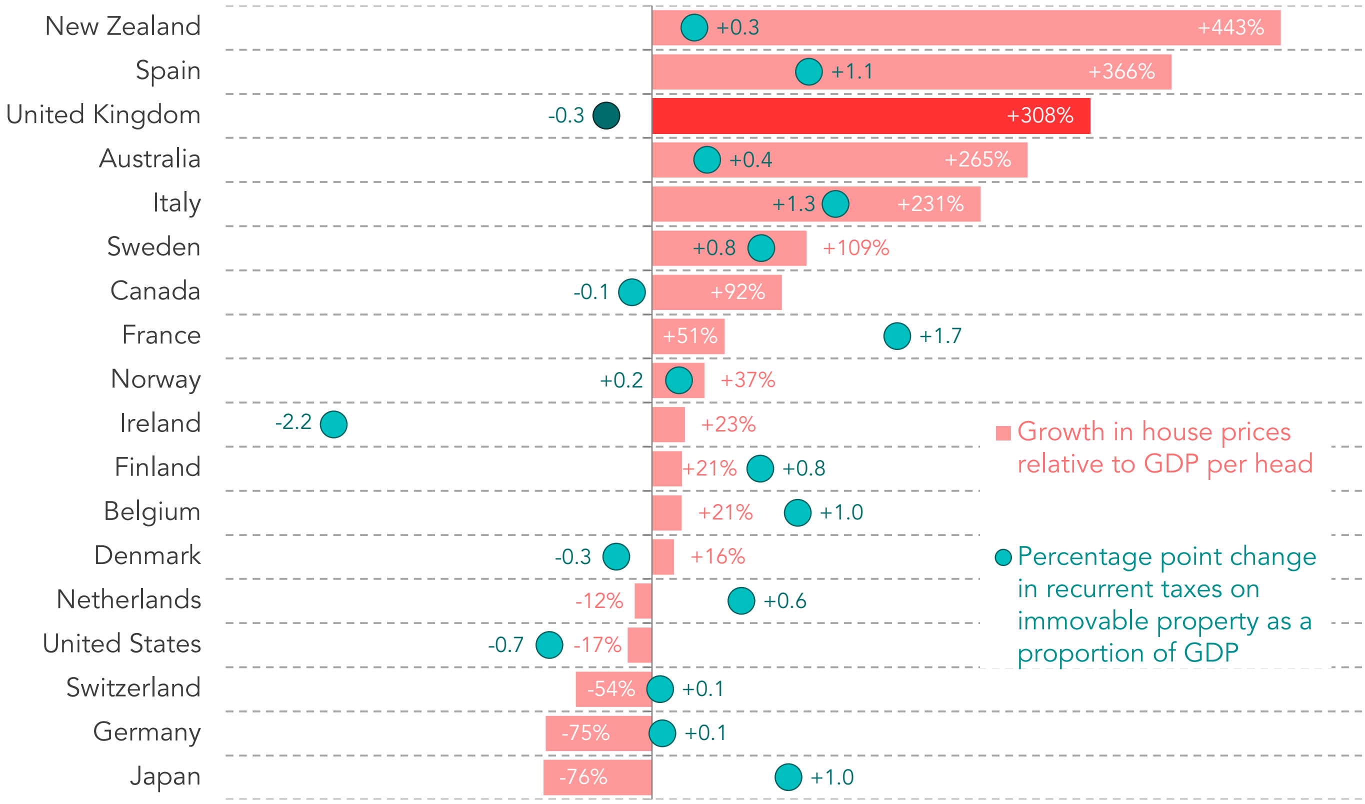
12 Figures relate to the UK, 2016-17 financial year. Source: Office for Budget Responsibility, *Economic and Fiscal Outlook*, November 2017

13 Strip out council tax from the measure of capital taxes and the UK moves closer to the OECD average. The standard OECD classification of taxes on property also includes business rates and non-residential and financial stamp duties, which are not levied on households. However the distinction between household and business taxes is not made for all countries so these can't be stripped out on a comparable basis.

14 Specifically, house price growth for Madrid alone is captured prior to 1987, which likely exaggerates the growth in Spain's house prices in the 1980s and before.

Figure 3: **UK recurrent property taxes have failed to keep up with house price growth**

Growth in house prices and recurrent property taxes relative to GDP, selected OECD countries: 1971-2015



Notes: All OECD countries for which data is available are shown. Some caution should be taken in interpreting the Spanish growth in house prices relative to GDP per head because the data captures house price growth for Madrid alone prior to 1987, which likely exaggerates the growth in Spain's house prices in the 1980s and before.

Source: RF analysis of OECD.stat

There is a strong economic case against Britain's current approach to property taxation

If our property taxes have at least stayed roughly flat in relation to the size of the economy, as Figure 1 shows, and if we raise a comparable amount of money from them to other countries, one might question whether these peculiarities matter. The fiscal challenge set out above in relation to health and care pressures, in the context of increasing wealth concentration among older generations and the slow income progress of younger ones, should make us recognise that the failure to capture rising values is a problem in terms of putting pressure on other taxes. In addition, there is also a strong economic case for properly structured recurrent taxes on property, summarised in Box 2.

Box 2: The case for recurrent property taxes

Why should property be taxed? One goal of course is simply to raise money for public services. And property taxes benefit from being hard to avoid, and from the fact that the supply of property is far less responsive to taxes than the supply of labour or financial capital. Indeed, the OECD has argued that "recurrent taxes on immovable property [are] the least harmful tax" – to be favoured over income, consumption and corporate taxation.[1]

Others have argued that far from being an added distortion, there are a number of reasons for taxing residential property within our current tax mix in order to avoid distortionary effects. For example the seminal *Tax by design* (Mirrlees) review argued that:[2]

- Given the existence of VAT (and a lack of VAT on the construction of homes[3]), a tax system designed to minimise consumption distortions would also tax actual and imputed rents (i.e. at the standard VAT rate of 20 per cent).
- Given the existence of income tax, imputed rental income (as well as rental income) should be taxed like earnings (i.e. at marginal income tax and National Insurance rates – depending on how other investment income is taxed).
- Capital gains on people's residential property should be taxed like any other investment.

There is then also a separate case for a land tax, given that the supply of land is almost entirely inelastic and that a large part of its value stems from community inputs (rather than the landowner[4]); making it economically and conceptually attractive. Some countries also levy general wealth taxes on net assets above a certain level.

1 OECD, *Tax Policy Reform and Economic Growth*, November 2010

2 J Mirrlees et al., *Tax by design*, Institute for Fiscal Studies, September 2011

3 This causes its own problems and presents a case for also exempting renovation from VAT. See: K Barker, *Housing: Where's the Plan?*, 2014

4 Of course the value of land can be affected by landowners themselves, for example through the fertilisation of soil.

In particular, Box 2 demonstrates that the economic case for recurrent property taxes can be made from multiple perspectives. We might, for example, be concerned with taxing either land wealth or the wealth gains/investment income that stem from it (i.e. in relation to property or land values, or changes in them). But our property tax system treats housing more favourably than other investments (for example in UK companies), despite the inelastic supply of land. In this sense it favours property market speculation over productive investment, potentially with long-term impacts on growth.[15] In addition, partial capture of increases in house prices through the tax system may be argued to be good for dampening volatility and especially fair where public investment (e.g. new infrastructure) has boosted values. But our property tax system fails to capture these.

On the other hand, we might be concerned with taxing the consumption of housing services (i.e. in relation to the rental income paid by tenants, or the rent that the property would yield in the case of owner-occupiers). However, for the most part, our property tax system does not match VAT and so favours consumption of housing over other goods.

So our current approach to property taxation falls short from either perspective. And importantly, while this distinction between the wealth stored in (or generated from) properties and the housing services consumed by their residents is conceptually interesting, it makes little difference in terms of the practical application of a tax. This is because relative differences in estimated current prices turn out to be a fairly good proxy for both the wealth in properties and actual or imputed rental yields at a given

15 The OECD notes, "tax favouring of housing can lead to excessive housing investment and crowd out more productive investments, thereby adversely affecting productivity and growth." See: OECD, *Economic Policy Reforms: Going for Growth*, 2011

time (although the two can move differently over time so the ratio may not stay fixed). In sum, a recurrent property tax that is proportional to property prices and moves with them has a solid basis in economic theory.

In this paper we take the approach that a relatively simple, dedicated recurrent property tax can reflect this theory without trying to match the workings of existing taxes – such as capital gains tax, VAT or income tax – exactly. Given it is often suggested as an alternative, Box 3 discusses the option of levying capital gains tax on primary residences in more detail.

Box 3: The case against capital gains tax on primary residences

One oft-cited proposal for improving the taxation of property and responding to the remarkable trends in UK wealth is to remove the exemption of main homes from capital gains tax (CGT). This would mean that when someone's house value has increased they would pay CGT on the uplift upon sale (with rates that currently go up to 28 per cent), potentially with the ability to offset the value of another main residence being purchased at the same time if trading upwards or sideways. This has some attractions, but comes with some major challenges that arguably make a simpler annual property tax preferable.

First, and particularly if this were in addition to council tax rather than a replacement, expanding CGT in this way would add complexity. What's more, ideally the costs of any property improvements would be kept track of for later deduction; and any decreases in property values may be offset-able against future gains.

Second, extending CGT to far more people than the minority who currently pay it would make the question of its fairness more pressing. In particular, is it nominal gains that should be taxed, real gains (i.e. accounting for inflation), or perhaps only gains beyond a typical savings interest rate? CGT currently has no inflation adjustment, but for assessing property value increases over the course of decades, this decision becomes very important.

Third, a poorly designed CGT would dis-incentivise transactions – just as stamp duty does. Suppose the value of your home had gone up from £100,000 to £200,000; and you want to move across the road to another £200,000 home. Would you move if you had to pay – say – £28,000 tax on your existing capital gain? Rollover relief is a partial solution to this, so no tax would be due when trading up or sideways, but this does not entirely remove the distorted incentives towards 'lock-in'. There are solutions that would mean CGT wouldn't incentivise people to delay tax bills by delaying sale (as a pound of tax paid in the future is a better deal than a pound paid today).[1] But in any case, the psychological effect of paying tax at the point of (some) transactions may lead more people to stay put.

Fourth, a retrospective inclusion of capital gains (e.g. to capture the gains of the 1990s and 2000s) would be controversial, to say the least. But the alternative – of only capturing future gains – would mean the reform would raise little in the short-term. If rollover relief were allowed (with most payment probably being at death) it may be the best part of a century until revenues reach their steady state. And this assumes unchanging policies. In reality, for those sitting on gains of hundreds of thousands of pounds, there is a very big incentive to try to realise those gains when tax rates are reduced or to wait for a government to abolish the tax entirely. This political problem is one that has plagued previous wealth taxes.

So, while there are no doubt improvements that can be made to the existing CGT regime, addressing the inadequacies of our current system of recurrent property taxes may be an easier way to increase the link between taxes and house price increases.

1 For example, the rate of return allowance discussed in J Mirrlees et al., *Tax by design*, Institute for Fiscal Studies, September 2011

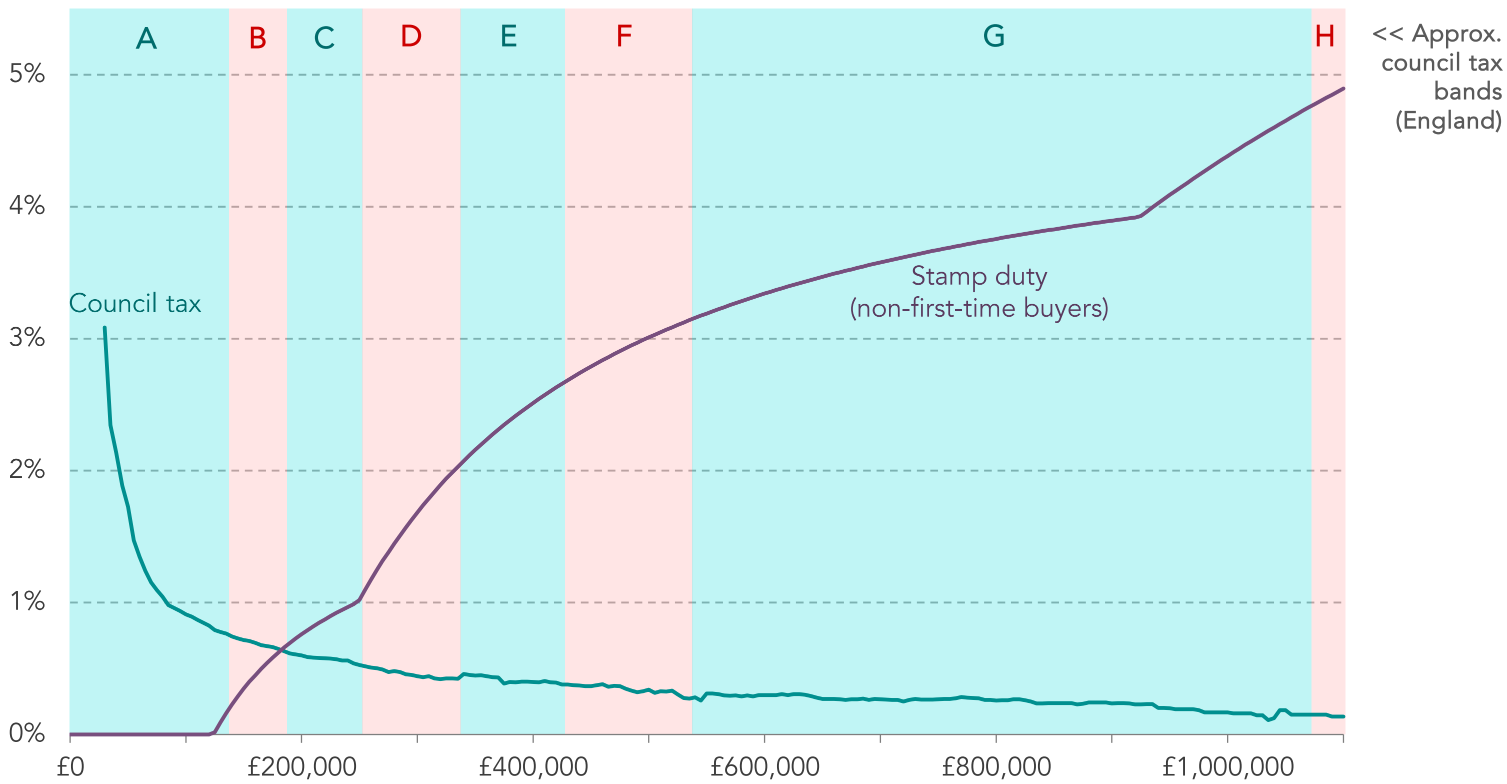
While progressive and very clearly related to values, stamp duty land tax, as a tax on transactions, makes little economic sense.[16] By reducing the number of working-age people moving for a better job; or elderly people downsizing to a smaller home; or anyone simply moving to a house they prefer; stamp duty has economic and broader welfare costs (to say nothing of the administrative hassle for home-buyers).[17]

Britain's main property tax – council tax – has come to look very like the poll tax it replaced

The result of the peculiar structure of council tax is that it is particularly regressive as a function of current property values (which, as discussed above, are a good basis on which to tax property). The picture across Britain is summarised in Figure 4. Three-quarters of

Figure 4: **Council tax is very regressive, while stamp duty is progressive**

Median annual council tax as a proportion of property value, by value of property: GB, 2015-16



Notes: This chart shows median council tax in each £5,000 band of property value. This analysis covers gross council tax prior to reductions, on primary residences only. It incorporates a slightly more progressive structure in Wales, where an extra band 'I' was introduced for a minority of high value properties. From 2017-18 onwards, the picture will also look more progressive in Scotland due to the introduction of higher rates on bands E-H. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

16 J Mirrlees et al., *Tax by design*, Institute for Fiscal Studies, September 2011

17 C Hilber & T Lyytikäinen, 'Transfer taxes and household mobility: Distortion on the housing or labor market?', *Journal of Urban Economics*, 101, September 2017

households in Great Britain lived in bands A-D in 2015-16, in which the tax rate in relation to value is at least 0.5 per cent. By contrast, Figure 4 shows that stamp duty's structure of bands and allowances makes it progressive in relation to the value of properties.

It is worth pausing on what drives this regressivity in the council tax system. Partly, it derives from the existence of bands in the first place in which council tax bills (in a given local authority) are exactly the same, meaning that the lowest-value property in each band has a significantly higher effective tax rate (tax as a proportion of property value) than the highest-value property in each band. For example, consider the fact that gross band A council tax in the North East of England amounted to an average of £1,050 per year in 2015-16. The lowest-value tenth of properties in band A in the North East were worth £65,000 or less and so had an effective council tax rate of at least 1.8 per cent. The highest-value tenth of properties in that same band and region were worth at least £130,000, and so had an effective council tax rate of 0.8 per cent or less.

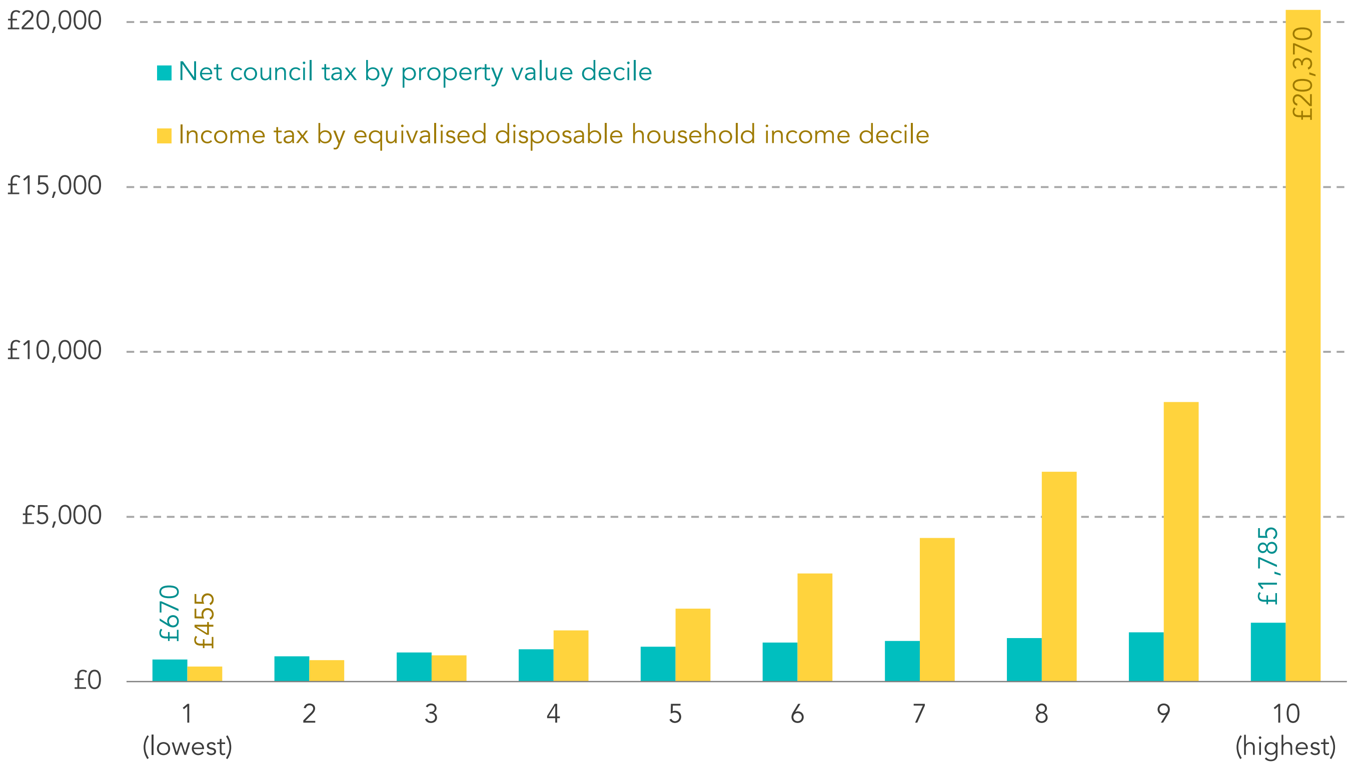
On top of the existence of bands in the first place, council tax's regressivity is amplified by the small differences in council tax between these bands (or specifically, the fact that the council tax differences between bands are much smaller than the differences in property values themselves). For example, in 2015-16 typical (median) gross council tax bills in Great Britain were 3.3 times as high in band H as in band A (£2,595 and £775 respectively). By contrast, typical property values were 6.8 times as high (£750,000 and £110,000 respectively).

As shown in Figure 4, the combined effect of these features is a declining effective council tax rate as property value rises. For example, someone living in a property worth £100,000 pays around five times as much council tax relative to property value as someone living in a property worth £1 million.

The irregularity of council tax is further thrown into perspective through a comparison with the highly progressive structure of income tax, which is provided in Figure 5. While average net council tax (council tax after reductions, discounts and exemptions) is 2.7 times higher in the top decile of the relevant distribution than the bottom decile, income tax is 45 times higher.

Figure 5: **Council tax is incredibly flat when compared to income tax**

Mean council tax and income tax, by deciles of income or property value: GB/UK, 2015-16



Notes: Net council tax refers to council tax less council tax reduction. Mean council tax is shown here rather than median, for comparability to income tax data. This analysis covers primary residences only. Council tax data covers Great Britain, income tax data covers the UK as a whole. See Annex for full methodological details.

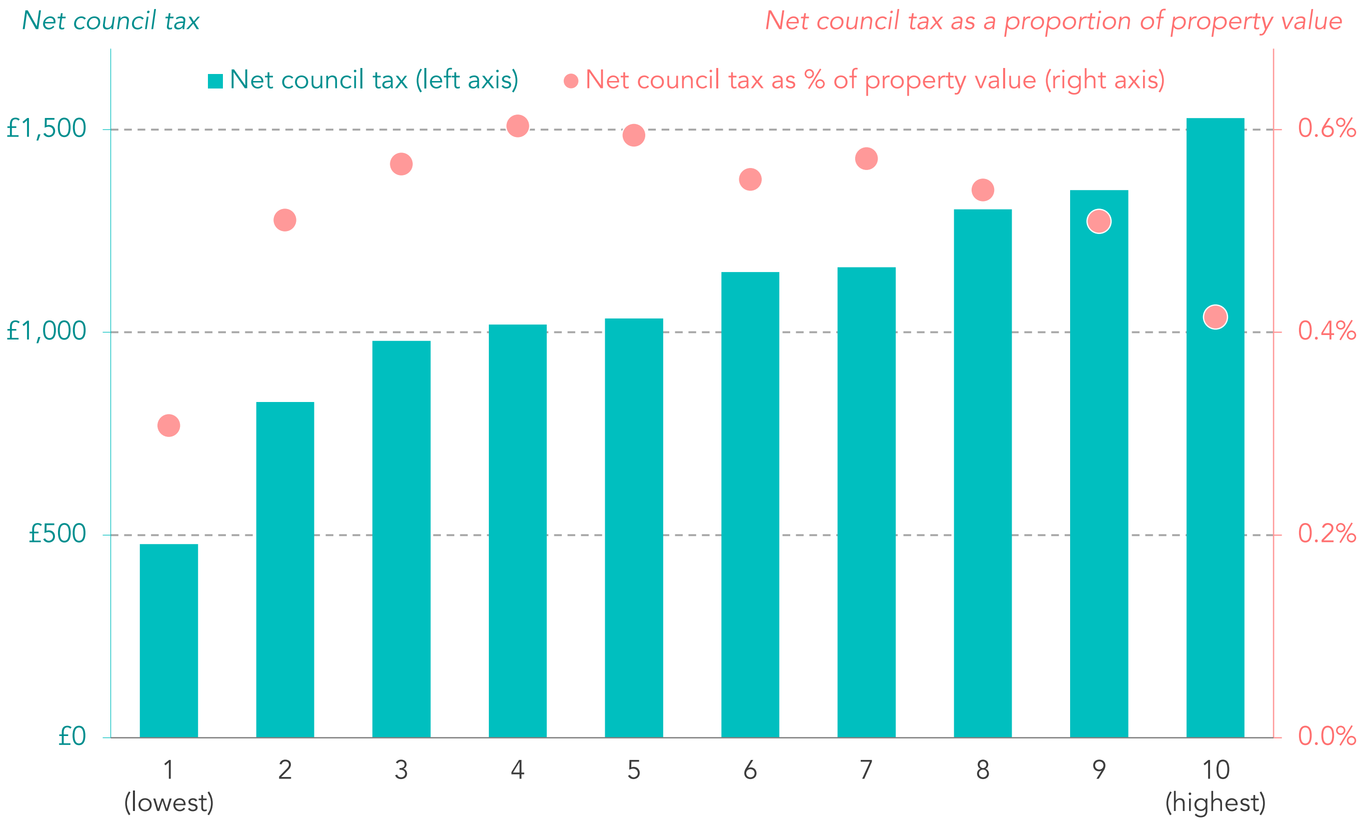
Source: RF analysis of ISER, *Understanding Society*; ONS, *The Effects of Tax and Benefits on Household Income*

Reflecting the distribution shown in Figure 4, the result of the 'flatness' of council tax is that in contrast to effective income tax rates which rise as income rises, effective council tax rates (relative to property value) are nearly four times higher for the bottom 10 per cent of properties as for the top 10 per cent.

Effective council tax rates are also incredibly flat across the *income* distribution, as shown in Figure 6. The median council tax rate relative to property value is lowest in the bottom income decile, at 0.3 per cent, largely due to the mitigating influence of council tax reduction. It is relatively flat across the other nine income deciles, although highest in decile four (0.6 per cent) and lowest in the top decile (0.4 per cent). At £1,530, net council tax is only 1.8 times as high in the top decile of the income distribution as it is in the second decile (£830).

Figure 6: **Those with the highest incomes have among the lowest effective council tax rates**

Median absolute council tax and council tax as a proportion of property value, by equivalised disposable household income decile: 2015-16



Notes: Net council tax refers to council tax less council tax reduction. This analysis covers primary residences only. Income is measured before housing costs. See Annex for full methodological details.

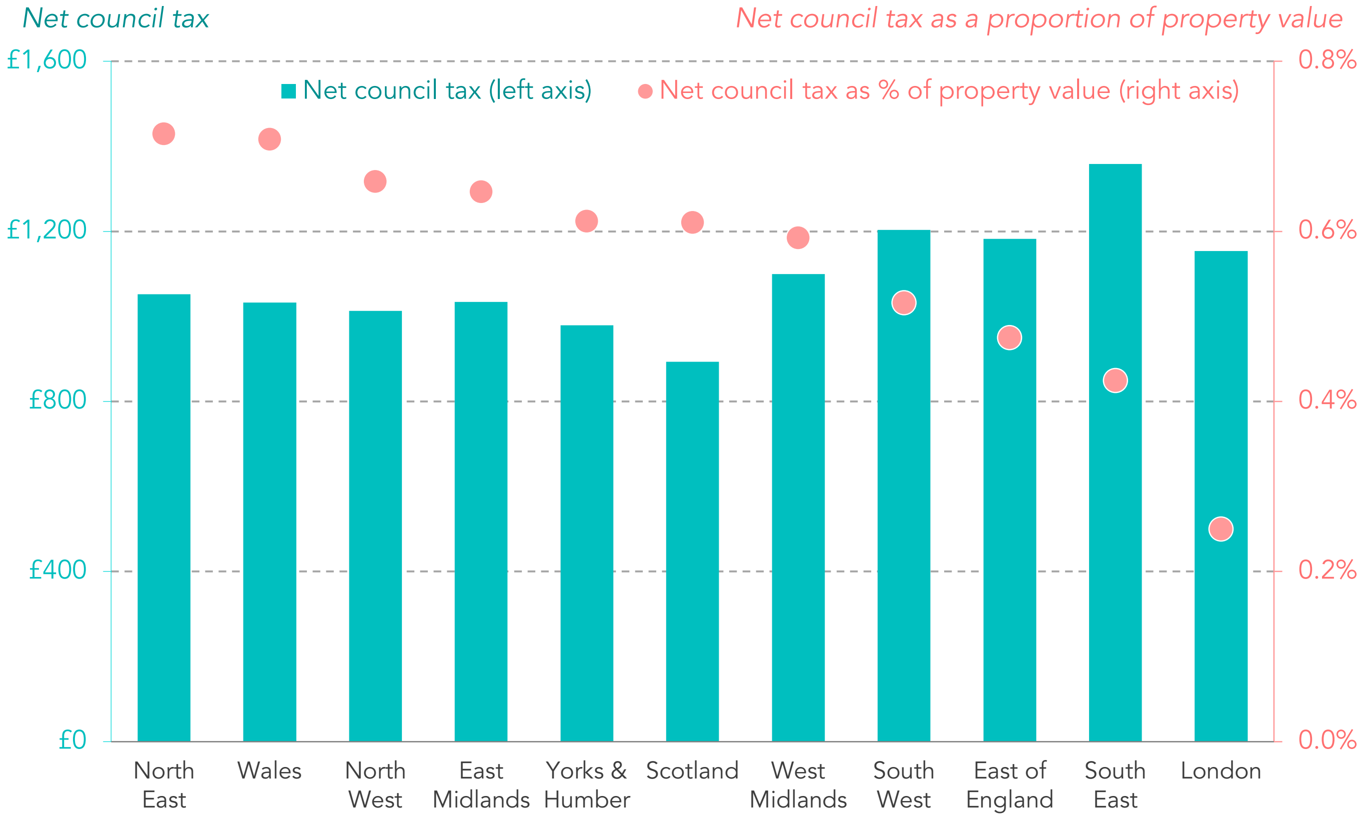
Source: RF analysis of ISER, *Understanding Society*

The fact that the basic structure of council tax is regressive is exacerbated by differences between local authorities. The combination of very different house prices in different areas (meaning that richer councils can set their band D rates lower in order to fund a given level of local services, as discussed in Box 1) with the regressive band structure of council tax (and the fact that richer areas have a greater proportion of properties in higher bands) drive much lower effective tax rates in some parts of the country than others. Hence, Westminster City Council can have one of the lowest rates of council tax for each band despite – or in fact because of – having some of the highest property prices in the country.

The combination of these two factors – the regressive nature of the council tax band structure and the ability of local areas with high-value properties to charge lower rates across bands – drives a peculiar pattern across regions, as summarised in Figure 7. In 2015-16 the typical net council tax bill was around 10 per cent higher in London than in the North East (£1,150 and £1,050 respectively); however typical property values were 220 per cent higher (£400,000 and £125,000 respectively). As a result, the typical effective tax rate was around three times as high in the North East as in London (0.7 per cent and 0.2 per cent respectively).

Figure 7: **London and the South East have the lowest effective council tax rates**

Median absolute council tax and council tax as a proportion of property value, by region: 2015-16



Notes: Net council tax refers to council tax less council tax reduction. This analysis covers primary residences only. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Finally – as well as the existence of bands in which bills are the same, the relatively small differences between bands and local variation – the fact that the property values on which council tax is based are 27 years out of date (15 years in Wales) amplifies regressivity. This is because the value of some properties has changed at a very different rate to others over this period, driving inequities between individual properties even relatively close to one another, and in particular between regions that have experienced differential house price trends. For example, rapid house price growth in London means that only 36 per cent of properties in the capital worth above the national average of £282,000 today were placed in the top four council tax bands back in 1991. By contrast, in the North West 67 per cent of above-national-average properties are in the four most expensive council tax bands.

Combined with variation in council tax bills by local authority, the result is that houses worth around £1 million in London have the same average council tax bill as properties worth a third as much (around £340,000) in the North West (both £1,820).[18] Even more severe inequities are evident when focusing on similarly-sized individual properties,

18 In our definition of houses worth £1 million we capture properties with values between £950,000 and £1,050,000 to achieve a large enough sample. In our definition of houses worth £340,000 we capture those with values between £330,000 and £350,000. Source: RF analysis of ISER, *Understanding Society*

even those that are very close to each other. For example, a search of property comparison website *Zoopla* shows that a three-bedroom flat for sale for £2.1 million in Battersea, London Borough of Wandsworth faces a council tax bill of £700 per year. Walk just one mile away and a three-bedroom flat in Lambeth, for sale at less than one-fifth of the price (£400,000), faces a council tax bill of £1,160 per year, 66 per cent higher.[19]

Bringing together the picture of council tax rates across the property value distribution, across income groups and across regions, it's worth noting that apart from certain exceptions such as TV licences, there is no other large UK tax that has such a flat structure. Paul Johnson put it well: "We wouldn't charge a lower rate of VAT on a Ferrari than on a Nissan. It is not much more evident why we should charge a lower rate of council tax on a £2 million mansion than on a £50,000 flat."[20] In sum, despite replacing the poll tax, council tax looks increasingly like it.

Stamp duty, on the other hand, is nothing of the sort. Its basic structure means it is progressive in relation to property value. In terms of regional variation, it is concentrated in London and the South East, which together account for 62 per cent of the total revenue raised.[21] And as shown in Figure 8, the direct cost is borne overwhelmingly by higher income households.[22] While the economic arguments against stamp duty set out above are unequivocal, it should be noted that reducing or abolishing it would – if done as an isolated reform – be both expensive and mainly benefit higher-income households, London and the South East.

19 Council tax bills are for 2017-18. Source: https://www.zoopla.co.uk/for-sale/details/46686168?search_identifier=a0cb93a2a9e47f939bef549d41c03b03#MTsd2i1BblqHzfGf.97; https://www.zoopla.co.uk/for-sale/details/46073782?search_identifier=42f43c3af2e2d365c93e5751d47ef40f#WV8efBOQjcVUQteA.97, accessed 16 March 2018

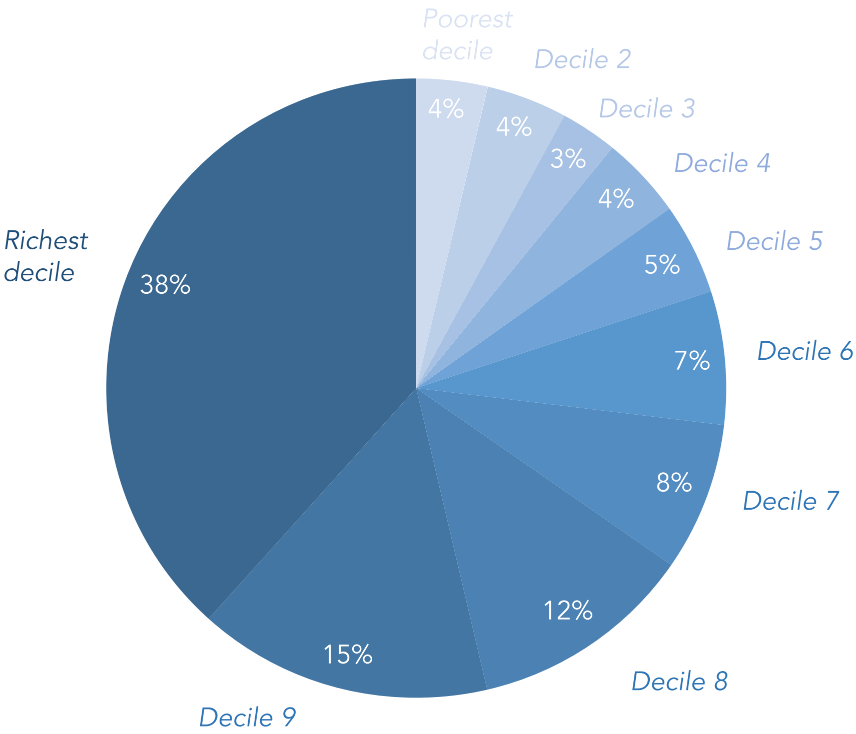
20 P Johnson, *Fairer by design: efficient tax reform for those on low to middle incomes*, Resolution Foundation, July 2012

21 Source: HMRC, *UK Stamp Tax statistics 2016 to 2017*

22 Note that these 2015-16 figures are from before the recent abolition of stamp duty for most first-time buyers.

Figure 8: **Stamp duty falls mostly on the highest-income households**

Proportion of stamp duty paid by equivalised disposable household income decile: UK, 2015-16



Notes: Income is measured before housing costs.

Source: RF analysis of ONS, *The Effects of Tax and Benefits on Household Income*

Our approach to property taxation also causes adverse outcomes across generations because it is bad for the housing market

We highlighted at the beginning of this section the need for more tax revenues in coming decades, and the importance of a focus on wealth taxes in particular when the position of different generations and the relative under-taxation of wealth and some forms of capital is taken into account. Alternative avenues – higher income and consumption taxes for example – would put further pressure on the living standards of younger generations who've had the toughest time through the crisis.

There are additional generational arguments against the property taxation status quo in Britain. The first is that it has contributed to rising house prices because housing is under-taxed relative to other investments, and it has discouraged efficient use of housing stock (which is important given the inelastic supply of land). The drivers of inefficient stock use include the fact that council tax favours large properties over multiple smaller properties (through its regressive structure); favours single occupancy over multiple occupancy (through the single person's discount); favours second homes and holiday homes (through discounts of up to 50 per cent); and often favours empty homes too (through discounts of up to 100 per cent). Moreover, the fact that council tax rates do not increase with value above the top band encourages wealthy foreign ownership of often under-occupied 'trophy' homes, reducing the effective stock for domestic residents. The lack of council tax for students should also be noted, including the very strong incentive for students not to live with any non-students (who would then make the household liable for council tax).

Added to these council tax effects is the fact that stamp duty discourages moving, including young families moving to larger houses as they grow, and older families downsizing. For non-first-time buyers stamp duty is in many cases the single-biggest cost of moving. For example, a family moving from a £180,000 home to a £282,000 home (the average property price in Britain) would pay £4,090 in stamp duty, on top of perhaps £3,890 in estate agent fees and around £3,500 in legal fees, mortgage fees and other costs.[23]

These features of property taxation are bad for the housing market in general. A well designed property tax that is buoyant with respect to property values would dampen increases and decreases in property values – both nationally and region-by-region – which would be welcome given the volatility of house prices and the macroeconomic damage this has done.[24]

Crucially, these features of property taxation have also turned out to have particularly negative consequences for members of young generations. Rising housing prices, by raising barriers to entry, have contributed to generational home ownership trends, with millennials who've so far turned 30 only around half as likely to own homes as baby boomers at that age. And inefficient stock allocation drives the fact that younger cohorts are increasingly losing out in terms of space and compromising on commuting times, as set out in previous research for the Intergenerational Commission.[25]

It is also important to note the interaction between property taxes and property prices. Given the inelasticity of the supply of property, there is a very strong case – both theoretical and empirical – that property taxes are (at least to a great degree) capitalised within prices. That is, a reduction in property taxes leads to a commensurate increase in rents and a windfall for owners; while an increase in property taxes leads to offsetting reductions in rents (if the tax is paid by tenants) and a loss in value for owners. The replacement of domestic rates with the poll tax, for example, increased house prices in English cities by an estimated 10-17 per cent (explaining 23-43 per cent of house price increases between 1985 and 1990).[26] So increasing the revenue raised through property taxes could reverse some of the headwinds they have so far provided to younger

23 Estate agent's fee at 1.8 per cent + VAT, the average according to *Which?*. Other illustrative costs are: mortgage arrangement fee: £1,000; valuation fee: £200, surveyor's fee: £400; legal fees: £1,450 (including searches, VAT and electronic transfer fee); removal costs: £450 (based on estimates from www.moneyadviceservice.org.uk). Note that the absence of stamp duty would all-else-equal be likely to push up house prices.

24 The Danish central bank acknowledges that fixing property values to 2001 valuations instead of linking to current market values contributed to the boom-and-bust in the Danish housing market and a banking crisis. See: Danmarks Nationalbank, *The Housing Bubble that Burst: Can House Prices be Explained? And Can Their Fluctuations be Dampened?*, 2011

25 A Corlett and L Judge, *Home affront: Housing across the generations*, Resolution Foundation, September 2017

26 L Rosenthal, *House Prices and Local Taxes in the UK*, Fiscal Studies, 1999

generations' home ownership and wealth accumulation, by lowering the price barrier to entry (although it would increase ongoing housing costs, which would be factored into mortgage assessments).[27]

The result is that the property taxation status quo is clearly generationally unfair

As well as the vacuum that the under-taxation of property leaves for other taxes to fill, and the adverse housing market outcomes our current approach causes, the history of property taxation in this country has resulted in generational inequities when cohorts are compared at the same age. We discussed earlier the various economic arguments for a property tax that is aligned to property prices, from both a housing consumption perspective and in respect of taxing wealth. From both these perspectives (and focusing just on council tax here since we don't have a consistent age-breakdown of stamp duty receipts over time), young adults in Britain have lost out compared to their predecessors.

First, young adults are paying more tax for the amount of housing they consume than their predecessors at the same age. We know from previous analysis for the Intergenerational Commission that younger cohorts are experiencing lower housing quality than predecessors at their age in relation to space, crowding and commuting times.[28] In terms of the structure of council tax, this would be expected to translate into a greater proportion of young households in lower council tax bands (because smaller properties and those further from available jobs will tend to be lower in value). And, as discussed above, it is those in lower bands who are negatively affected by the regressive nature of council tax, given it is greater relative to property value in these bands.

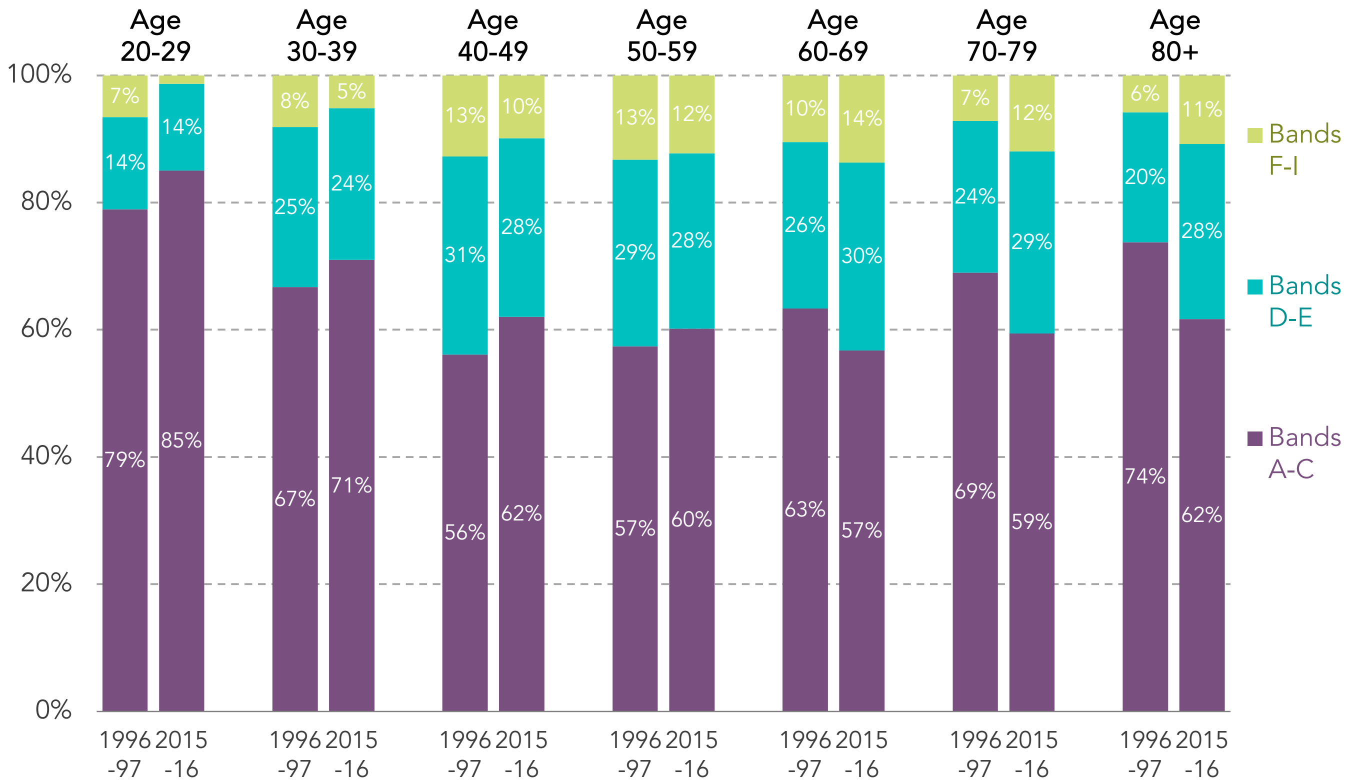
27 If a reformed council tax or replacement property tax resulted in lower-value houses facing lower bills than at present, this could of course have the opposite effect, putting upward pressure on prices in this section of the market.

28 A Corlett and L Judge, *Home affront: Housing across the generations*, Resolution Foundation, September 2017

This story is borne out by Figure 9, which shows the council tax bands households of different ages were in in 2015-16 (the latest data) compared to the picture 19 years earlier. For households aged under 60, the shift over the past two decades has been towards lower council tax bands: in which the relative tax burden is greater. For households aged 60 and over the opposite is true. For example the proportion of 20-something households living in band A-C properties has risen from 79 per cent in 1996-97 to 85 per cent in 2015-16.

Figure 9: **Younger households have shifted down to more highly-taxed council tax bands**

Proportion of households in each council tax band, by age and year: GB



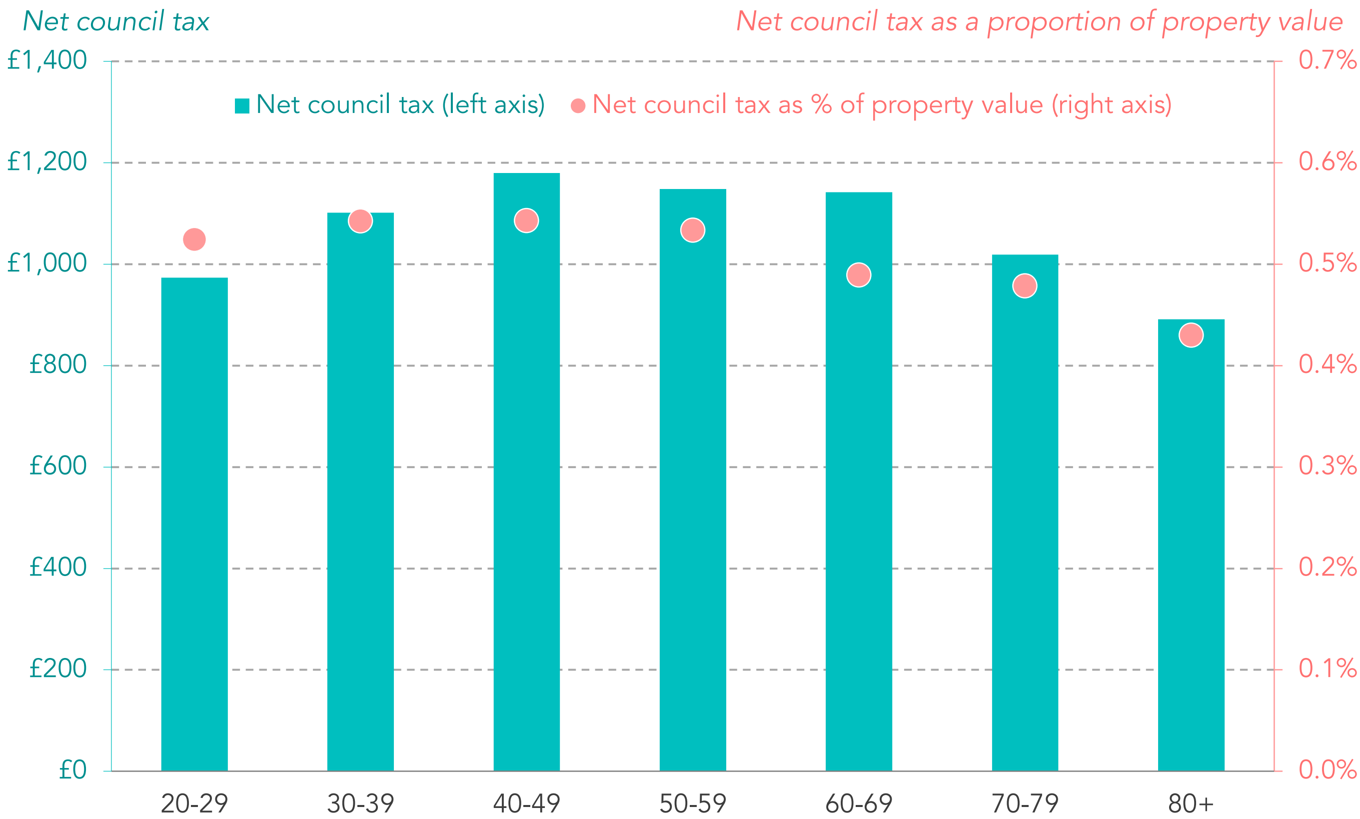
Notes: This analysis covers primary residences only. Age is based on average age of adults in the primary benefit unit (family) in each household. See Annex for full methodological details.

Source: RF analysis of DWP, *Family Resources Survey*

The result of these shifts (and to some extent other factors discussed above such as regional variation) is that today it is households containing adults in their 30s, 40s and 50s (the eldest millennials and generation X), that face the highest effective council tax rates. Figure 10 sets this out, showing for example typical council tax as a proportion of property value of 0.54 per cent for those aged 30-49, falling to 0.48 per cent for those in their 70s and 0.43 per cent for those aged 80 and over. This is in contrast to the picture almost two decades previously (in 1996-97) when, although effective council tax rates were higher across the board (because this preceded sharp house price rises and more recent council tax freezes), those aged 30-49 faced lower tax rates than those in their 70s.

Figure 10: **Older households have the lowest effective council tax rates**

Median council tax and council tax as a proportion of property value, by age: GB, 2015-16



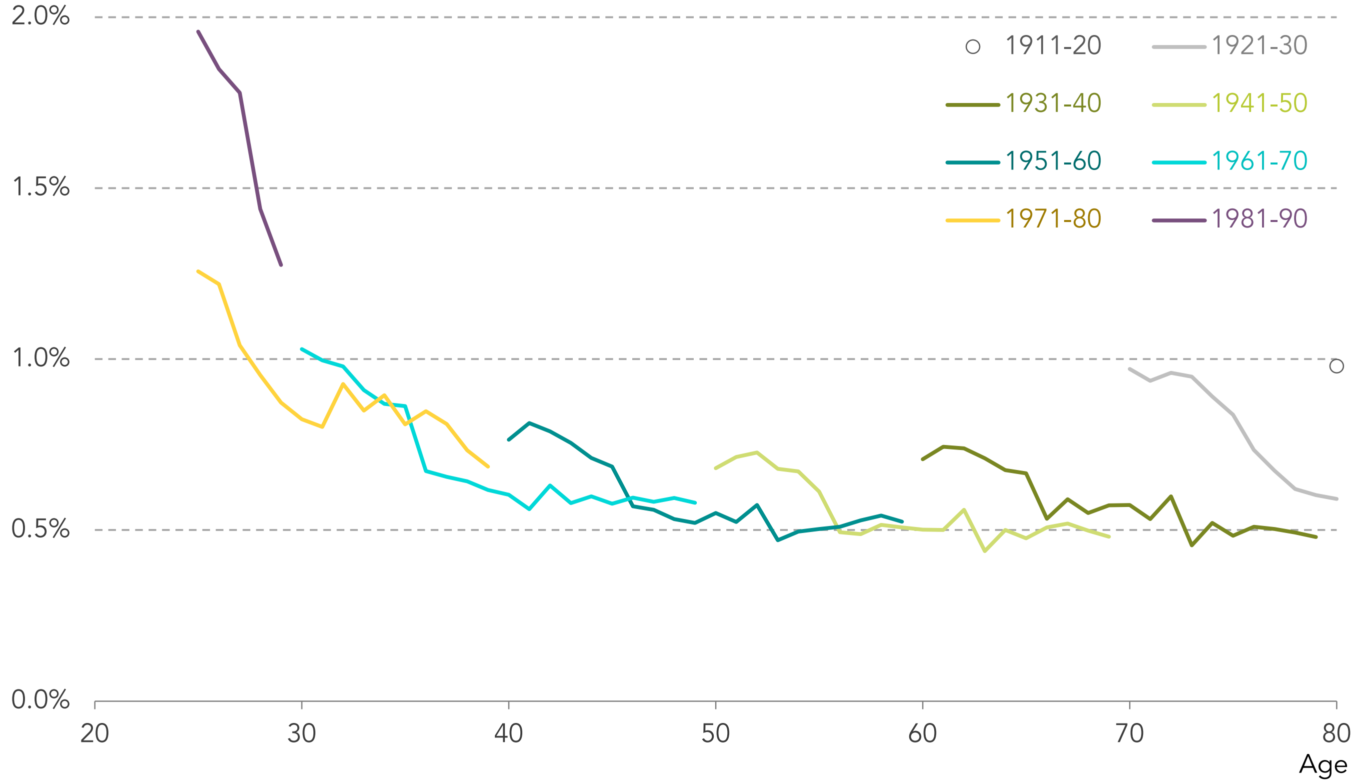
Notes: Net council tax refers to council tax less council tax reduction. This analysis covers primary residences only. Age is based on average age of adults in the primary benefit unit (family) in each household. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

There is a similar story of younger cohorts being disadvantaged when measuring net council tax in relation to gross property wealth. Despite the fact that – as implied by Figure 1 – overall council tax revenue has fallen relative to property wealth held in main residences over time, lower home ownership in the 1981-90 cohort means that they are paying more council tax at each age relative to the property assets they own. For example, council tax paid within this cohort was 1.3 per cent of the gross property wealth it held at age 29, compared to a figure of 0.9 per cent for those born in 1971-80 at the same age.

Figure 11: **Millennials pay more council tax relative to property wealth than predecessors**

Total net council tax as a proportion of total gross property wealth, by age and cohort: GB, 1996-97–2015-16



Notes: Net council tax refers to council tax less council tax reduction. Age is based on average age of adults in the primary benefit unit (family) in each household. To account for the fact that some households have no gross property wealth, cohort proportions are calculated based on the total council tax (less reductions) paid by each cohort in each year as a proportion of the total gross property wealth held by the cohort at the time. This analysis covers primary residences only. See Annex for full methodological details.

Source: RF analysis of ISER, *British Household Panel Survey* & *Understanding Society*

Having set out the problems with Britain's current approach to property tax from fiscal, economic efficiency and generational perspectives, in the next section we turn to a consideration of alternative options.

Section 3

Options for property tax reform

Having set out the problems with Britain's current approach to property taxation from varying perspectives, in this section we turn to alternative options. We acknowledge the political challenges that reform would entail. However, the inequities in the existing system; relative consensus in past proposals about what ought to be done; and a range of better alternatives in operation in other countries should provide hope that change is possible.

As such, we explore what alternative approaches might look like, in particular the revenues they would raise and their incidence across various demographic groups. We set out the impacts of a range of changes within the existing council tax system that have been proposed previously by others, including a 'mansion tax' and higher rates of council tax in top bands. In a second group of options, we set out potential approaches to abolishing council tax entirely and replacing it with a property tax that is either proportional or progressive in relation to up-to-date property values. Across these options for reforming or replacing council tax, we show the potential to raise more revenue; reduce regressivity; reduce inequities across regions, income groups and age groups; and in the case of a replacement tax create many more gainers than losers at the same time. Finally, we suggest options for using some of these additional revenues to reduce stamp duty.

Property taxation reform is politically difficult, but there is consensus on the direction we should take

Before we turn to ways in which council tax could be changed or replaced (and stamp duty reformed alongside it), it's worth highlighting the political challenges such a project might face.

The idea of increasing recurrent taxes on property (or on certain properties, such as large or high-value ones) has often met with opposition. The inevitable creation of 'losers' – often to a significant extent given the 'flatness' of the existing council tax system – makes such a project potentially unattractive to elected politicians before it gets off the ground. A related challenge is the difficulty of releasing value from houses being lived in to pay tax bills, particularly for lower-income, high-wealth (often retired) families.

Reflecting on the history of domestic property taxation in the UK, delivering regular revaluations has long been a vexed issue. The old Schedule A income tax on land values was based on valuations from 1936 until it was abolished in 1963 (though the outbreak of World War II was a rather good reason for delay). And domestic rates in England and Wales were last assessed in 1973, before that system was scrapped in 1990 and replaced by the poll tax. The pattern is clear: of revaluations being delayed for political reasons, and of the delays exacerbating the required adjustment and therefore increasing the incentive to delay; until the whole system has to be scrapped and replaced. In the case of business rates, where a long delay led to a large and unpopular adjustment in 2017, the government now plans to move to revaluations every three years.[29] It may be that such a frequency – or greater – is needed to reduce the risk of destabilisation of any revaluation timetable for political reasons.[30]

Finally – and most importantly – is the fact that, like its predecessors, council tax explicitly exists to fund part of the services and activities of local government (and there is a tradition of property taxes funding local services in other countries too[31]). Overarching reform of local government financing is always likely to be complicated given the sheer number of political interests affected. In the case of council tax, the link to local services means that any reforms seeking to increase progressivity could be characterised as 'unfair' by virtue of increasing the tax differentials between households in the same local authority. And any reform seeking to strengthen the link between property values and tax bills would generate proportionally more revenue in areas with high house prices and therefore (absent mechanisms to correct for this) disadvantage poorer areas. Of course a solution to these challenges could be to weaken or break the link between property taxation and local government revenues entirely, but that then begs the question of what (if any) revenue link between local politicians and constituents would take its place.

We discuss these issues in more detail in the following section, our view being that while they are clearly challenging and essential to bear in mind when considering the 'mechanics' of property taxation reform, they should not be considered insurmountable. And there is good news (so to speak) alongside these challenges. First, we should remember that the biggest political disaster of all was the so-called poll tax, and the previous section showed clearly how much the system that replaced it has come to resemble it. In this context, the case for maintaining the current council tax system appears weak.

The second reason to be optimistic is that there is a relatively clear consensus within the literature about what should be put in council tax's place. This literature, summarised in Box 4, points towards a (more) proportional property tax, often with a greater role for council tax reduction schemes, regular revaluations, and deferred payments. And in terms of further grounds for optimism, this literature also highlights that fixing some of council tax's problem's would provide both an opportunity and a greater imperative to lessen the impact of stamp duty – a tax with few fans across political divides – or remove it entirely.

29 Autumn Budget 2017

30 "An advantage of frequent and automatic revaluations is that once established, their unpopularity is likely to diminish, whereas the longer they are delayed, the more of a political obstacle revaluation becomes." See: M Stephens, *Tackling housing market volatility in the UK*, May 2011

31 R Bird & E Slack, *Land and Property Taxation: A Review*, March 2002

Box 4: Previous proposals and research on reforming council tax

The Lyons Inquiry:[1] In this detailed review of local government, Michael Lyons concluded that it would be advantageous for council tax to be more proportional to value, more proportional to income, and a "more effective stabiliser of the property market." Reform would include regular revaluation; additional bands at the top and bottom; and efforts to boost the take-up and generosity of Council Tax Benefit. It noted that the majority of people would win from a revenue-neutral 'point value' tax of around 0.64 per cent of capital value (in 2005), but stopped short of recommending this.

Institute for Fiscal Studies:[2] The *Tax by design* (Mirrlees) report recommended a proportional 'Housing Services Tax'. For revenue neutrality in 2009-10, they estimated that the tax rate would need to be 0.6 per cent of updated property values, or around 12 per cent of annual rental value (somewhat lower than VAT), but suggested going further to fund abolishing stamp duty. It argued against existing council tax discounts.

Prof. Tony Atkinson:[3] Drawing on the Mirrlees report and the history of UK taxes and inequality, the late Tony Atkinson called for a single-rate, proportional property tax, "based on up-to-date property assessments." He estimated a revenue-neutral proportional rate of 0.54 per cent in 2014-15, and also suggested there should be provision in some cases for payment in the form of an equity stake in the value of the house.

Scotland's Commission on Local Tax Reform:[4] This commission concluded that council tax must end, that a recurrent tax on domestic property should continue, and that it should, "at the very least…be more progressive than the council tax." One example given was broadly proportional (around 0.75 per cent of value), which included band A tax being halved, and band H tax more than doubling. Another was based on value but with a progressive rate structure (0 per cent at the bottom, rising to 1 per cent at the top). This project included examination of the impact of revaluation, and noted the importance of council tax reduction schemes.

The OECD:[5] The OECD has argued that, "council tax is regressive and based on outdated valuations, while the stamp duty penalises mobility by increasing transaction costs. Ideally, the current council tax and stamp duty should be replaced by a property tax based on market values. As a first step, the council tax could be based on regularly updated property valuations. Furthermore, linking the property tax to market values could substantially dampen cyclical fluctuations of house prices, as rising prices would result in higher taxes, which would slow housing demand growth."

The Institute for Public Policy Research:[6] A detailed look at wealth taxes in the UK and abroad showed the range of potential options for replacing council tax or making it more progressive.

Prof. John Muellbauer:[7] This paper for the Institute for Public Policy Research argued that, "council tax is not a sensible tax." Muellbauer's analysis, "points to scrapping council tax, replacing it with a property tax. The property tax should be national, not local: […] given its instability, of the order of 75 percent of the revenue from property tax should go to central government. […] A sensible rate for a U.K. domestic property tax is probably of the order of half a percent of value, or a little less. […] To ease the politics of transition, reform should follow the Danish example of giving pensioners the option to postpone." Prof. Muellbauer has also suggested that the property tax system could reflect the Energy Performance Certificate of the property, to improve incentives towards energy efficiency.[8]

The London Finance Commission and Mayor of London:[9] This commission called for the power for London to hold periodic revaluations, "determine the number of bands, to set the ratio of tax from band to band and to set the tax rate," as well as control over other property taxes.

The Joseph Rowntree Foundation:[10] This analysis explored the potential impacts of revaluation; of a revenue-neutral flat tax of 0.65 per cent; and of one in which rates progressed from 0.43 per cent to 0.83 per cent. It showed that both alternatives would cut taxes for the bottom 90 per cent, improve fairness between regions and could reduce housing market volatility; but suggested applying some form of protection for London, and exploring combining property and income taxation to make the system more progressive.

The Adam Smith Institute:[11] This analysis called for council tax and stamp duty to be replaced by VAT on property services, i.e. "roughly 20% of imputed rental income."

1 M Lyons, Lyons Inquiry into Local Government, The Stationery Office, 2007
2 J Mirrlees et al., Tax by design, Institute for Fiscal Studies, September 2011
3 A Atkinson, *Inequality – What can be done?*, Harvard University Press, 2015
4 The Commission on Local Tax Reform, Just Change: A New Approach to Local Taxation, 2015
5 OECD, Economic Surveys: United Kingdom, March 2011
6 K Lawton & H Reed, Property and wealth taxes in the UK: The context for reform, Institute for Public Policy Research, March 2013
7 J Muellbauer, 'Property Taxation and the Economy', in D Maxwell & A Vigor (eds.), *Land Value Tax: Worth the transition?*, Institute for Public Policy Research, 2005
8 J Muellbauer, private correspondence, 2017
9 'Mayor endorses major new proposals for London devolution', Mayor of London, 27 January 2017
10 C Leishman et al., After the Council Tax: impacts of property tax reform on people, places and house prices, Joseph Rowntree Foundation, March 2014
11 B Southwood, Beyond the call of duty: Why we should abolish Stamp Duty Land Tax, Adam Smith Institute, October 2017

As such, in the remainder of this section we turn to the technicalities of possible reforms to property taxation, before returning to some of the political challenges and wider considerations in Section 4.

Our policy analysis in relation to council tax (and potential successors) is based on modelling using surveys capturing households in Great Britain (Northern Ireland is not captured throughout given it retains a system of domestic rates): *Understanding Society* and the *Wealth and Assets Survey*. In these datasets we simulate the current system of council tax (and council tax reduction) at the household level, as well as various alternatives.

We model these policies on the 2015-16 household population (2014-16 in the *Wealth and Assets Survey*) – as this is the latest data we have available – and express all cash values in 2015-16 prices. We compare each alternative to the current system of council tax and current rules for localised council tax reduction schemes as they exist now across the nations of Great Britain (i.e. including reforms in Scotland introduced in 2017-18, despite the fact that we are using 2015-16 base data).[32] Note that our modelling includes no dynamic effects, for example on house prices or on household decisions about the properties they live in. Our modelling is not able to capture second homes or empty properties directly, but results are scaled to include these in terms of revenue raised. Full details of our modelling approach are provided in the Annex.

We consider separately options for change within the current council tax system; options for scrapping council tax and replacing it with a proportional property tax; and options for reforming stamp duty.

Option A: Make changes within the current council tax system

As we have shown, there are deep structural problems with the existing council tax system. However, it may be that the political headwinds to far-reaching reform and the creation of winners and losers this might entail mean wholesale changes are not viable in the short term. So our first set of options considers things that can be done within the current structure of council tax, broadly speaking.

There are some things that can be done without any national government action. Councils cannot change the ratios between bands, but Westminster City Council is asking those with properties worth over £10 million to *voluntarily* pay more than the current maximum rate of £1,376 (with a recommendation of £833 more).[33] Labour MP Chris Williamson has also outlined a proposal for 'differential progressive council tax', by which councils could increase council tax for all bands but then cancel this out with a roll-out of non-means-tested council tax reduction for those in lower bands (a suggestion that lost him his shadow ministerial job).[34] Such options may be worth

32 These are modelled based on the approximate average approach different local authorities have taken to implementing council tax reduction, as summarised at www.counciltaxsupport.org.

33 'Westminster launches Community Contribution scheme', *City of Westminster*, 10 February 2018

34 P Waugh, 'Corbyn Ally Chris Williamson Quits Labour Frontbench Days After Calling For Council Tax Hike', *HuffPost*, 11 January 2018

exploring, but the interest in such convoluted ways of making council tax fairer and propping up local government finances should primarily be seen as a demonstration of the need for national reform.

Of course, more power could be devolved in future. City regions, for example, have requested greater power over property taxes.[35] And devolution to Scotland and Wales has led to some modest changes to council tax there. Even without fully devolving property tax powers or any revaluations, local authorities could be given the power to set their own band ratios. More modestly, the Local Government Association (LGA) has called for the local authorities to have the ability to reduce or remove the single person discount for those in homes in band E or above.[36]

Reform for the most expensive properties only

At present, however, major reform must come at the national level. In the first instance we consider the option of maintaining council tax as it exists but introducing mechanisms to raise more money from the most expensive properties. We base our options on reforms that have recently been suggested by political parties, or enacted in parts of Britain.

i Policy option

Increase council tax on the very highest-value properties, for example by replicating reforms in Wales where an additional band was added, or by introducing a 'mansion tax' on properties worth over £2 million.

We model specific options as follows:

- **New top band**: Introduce a new band in England containing the highest value half of properties in band H, with a council tax increase for these properties of 17 per cent. This is the same as the proportionate increase when band I was introduced in Wales, though in Wales band I is smaller than band H rather than equally sized. No effects are modelled in Scotland, because separate reforms there have increased council tax in band H by a greater amount than these Welsh-inspired reforms entail.

- **Mansion tax**: Add a council tax surcharge of 1 per cent on the value of properties above £2 million and 2 per cent on the value of properties above £3 million (that is, an additional tax with a £2 million tax-free allowance, a 1 per cent band between £2 million and £3 million, and a 2 per cent rate above that). This is in the spirit of reforms previously proposed by Labour and the Liberal Democrats.[37]

35 London Finance Commission, *Devolution: a capital idea – The report of the London Finance Commission*, January 2017

36 *BBC*, 'Council tax single person discount 'should be reviewed'', 15 March 2014

37 K Peachey, 'How would a mansion tax work?', *BBC*, 6 October 2014

While strictly speaking both of these would involve a revaluation exercise, this could be limited only to the very small minority of properties (0.6 per cent in England) that fall in band H, which is why we consider this option as a change to be made within the current council tax system rather than a full overhaul.

The effects of these options in terms of revenues raised and 'winners' and 'losers' are summarised in Table 1 (though note that all these figures refer to the direct effects of the tax changes only, without considering potential benefits of associated spending, via public services for example). The new top band option generates very little revenue at all – just £100 million across England (this reform has no effect in Scotland and Wales). The mansion tax option generates £1.1 billion.[38] In both cases a relatively small number of households (out of 26.3 million households in total in Great Britain in 2015-16) experience increases in their council tax bills, but under the mansion tax option their losses are very substantial.

Table 1: Options for increasing council tax on the very highest-value properties: GB, 2015-16

		Net revenue	Average net tax	Average net tax as % income	Households that gain	Households that lose	Average gain of gainers	Average loss of losers
Current system		£28.1bn	£1,132	3.5%				
New top band	Level	£28.2bn	£1,135	3.5%				
	Change	*+£0.1bn*	*+£3*	*+0.0ppts*	*0*	*199,000*	*£0*	*-£408*
Mansion tax	Level	£29.2bn	£1,173	3.6%				
	Change	*+£1.1bn*	*+£41*	*+0.1ppts*	*0*	*97,000*	*£0*	*-£10,796*

Note: All cash figures are annual. Net tax refers to council tax less council tax reduction. Income is measured before housing costs. The *Wealth and Assets Survey* is used to model the 'mansion tax' reform because this survey over-samples high-wealth households so is likely to better capture the most expensive properties than other surveys. It is not possible to impute the value of rented properties in this dataset or model council tax reduction, however the impact on high-value rented properties is estimated based on the proportion of £2 million-plus houses that are rented as measured in *Understanding Society*. In line with the rest of the modelling in this section, the effects of the 'new top band' reform are estimated using *Understanding Society*. This reform only affects households in England, however for simplicity and consistency average impacts across the whole of Great Britain are shown. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*; ONS, *Wealth and Assets Survey*

Both of these options affect households that are almost entirely found in the top-fifth of the income distribution, and live in London or the South East of England.

38 The revenues estimated here are somewhat lower than reported when slightly more limited proposals were suggested by the Labour Party and the Liberal Democrats (in the region of £1.2 billion-£1.7 billion). The reasons for this difference are not entirely clear given a lack of detail about how these parties did their modelling. However differences in estimates are not surprising given the fact that they refer to different years; the high sensitivity of forward-looking analysis to house price growth assumptions; and wide variation in estimates of the number of high-values properties. See: K Peachey, 'How would a mansion tax work?', *BBC*, 6 October 2014

Broader reform within the existing council tax system

Next we consider broader options for change within the current council tax system (i.e. not requiring full revaluations or abandoning the band structure altogether). Again, we base our options on reforms that have recently been suggested by others or enacted in parts of Britain.

Policy option

Change the rates of council tax charged in certain bands, for example by increasing rates or removing single person discounts in the top bands, potentially offset by lower rates in the bottom bands.

We model specific options as follows:

- **LGA**: Remove the single person discount for households in bands E-I – a power that the Local Government Association asked for councils to be given (for illustration we assume this power is used in full by all councils).
- **Scotland**: Replicate the Scottish 2017 changes across England and Wales, by increasing ratios (the rate of council tax as a share of the band D rate) for bands E-H (for example, entailing an increase in council tax bills of 7 per cent in band E and of 23 per cent in band H).[39]
- **Scotland max**: A variation on the above, in which bills in bands E-I are increased by more (entailing council tax increases of 20-60 per cent compared to current levels in England and Wales), but those in band A are cut by 10 per cent.
- **Williamson**: Implement proposals for a 'differential progressive property tax' akin to those recently outlined by Labour MP Chris Williamson, in which ratios in bands D-I increase (much more substantially than under the Scottish reforms: for example a 20 per cent increase in band D council tax and a 100 per cent increase in band H council tax, compared to current levels in England).

Table 2 summarises the results in terms of revenue raised and gainers and losers. Additional revenue ranges from £0.7 billion under the LGA option (removing the single person discount in higher bands), to £6.6 billion under Chris Williamson's differential progressive property tax proposals (by far the most radical of these options in terms of revenue raised).

39 We increase rates for the Welsh band I by the same proportion as band H.

Table 2: Options for reforming council tax by changing rates within the existing band structure: GB, 2015-16

		Net revenue	Average net tax	Average net tax as % income	Households that gain	Households that lose	Average gain of gainers	Average loss of losers
Current system		£28.1bn	£1,132	3.5%				
LGA	Level	£28.8bn	£1,158	3.5%				
	Change	*+£0.7bn*	*+£26*	*+0.1ppts*	*0*	*1.6m*	*£0*	*-£429*
Scotland	Level	£29.2bn	£1,175	3.6%				
	Change	*+£1.1bn*	*+£43*	*+0.1ppts*	*0*	*4.8m*	*£0*	*-£238*
Scotland max	Level	£29.7bn	£1,196	3.7%				
	Change	*+£1.6bn*	*+£64*	*+0.2ppts*	*5.3m*	*3.0m*	*+£67*	*-£673*
Williamson	Level	£34.7bn	£1,396	4.3%				
	Change	*+£6.6bn*	*+£264*	*+0.8ppts*	*0*	*10.7m*	*£0*	*-£650*

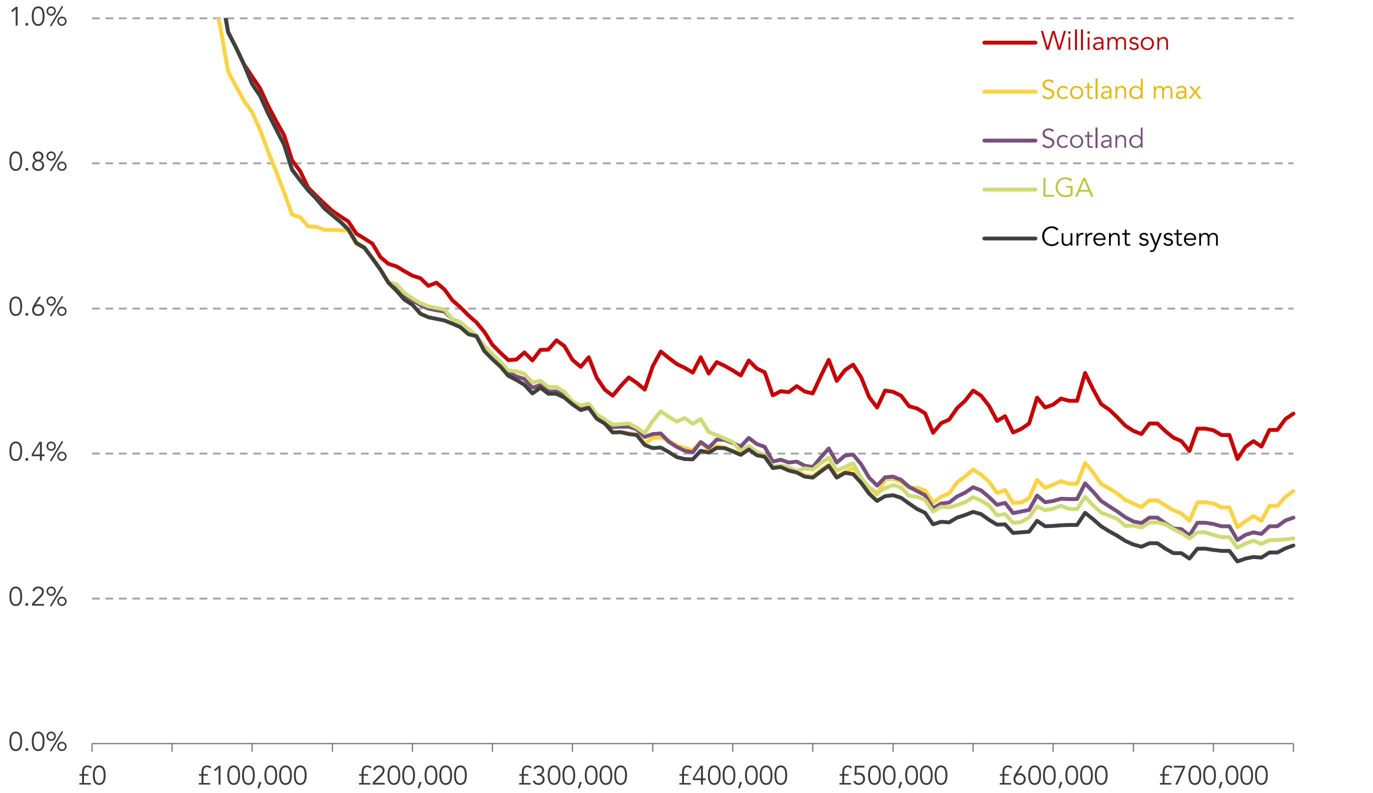
Note: All cash figures are annual. Net tax refers to council tax less council tax reduction. Income is measured before housing costs. The 'Scotland' reform only affects households in England and Wales, however for simplicity and consistency average impacts across the whole of Great Britain are shown. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Figure 12 shows that these alternatives tend to make council tax marginally less regressive, although barely so in the case of the LGA option. However, even under the Williamson option, council tax would remain highest as a proportion of value for lower-value properties and lowest for the highest-value ones.

Figure 12: **Options for changing council tax within the existing band structure would make it marginally less regressive**

Median annual council tax as a proportion of property value, by value of property and council tax reform option: GB, 2015-16



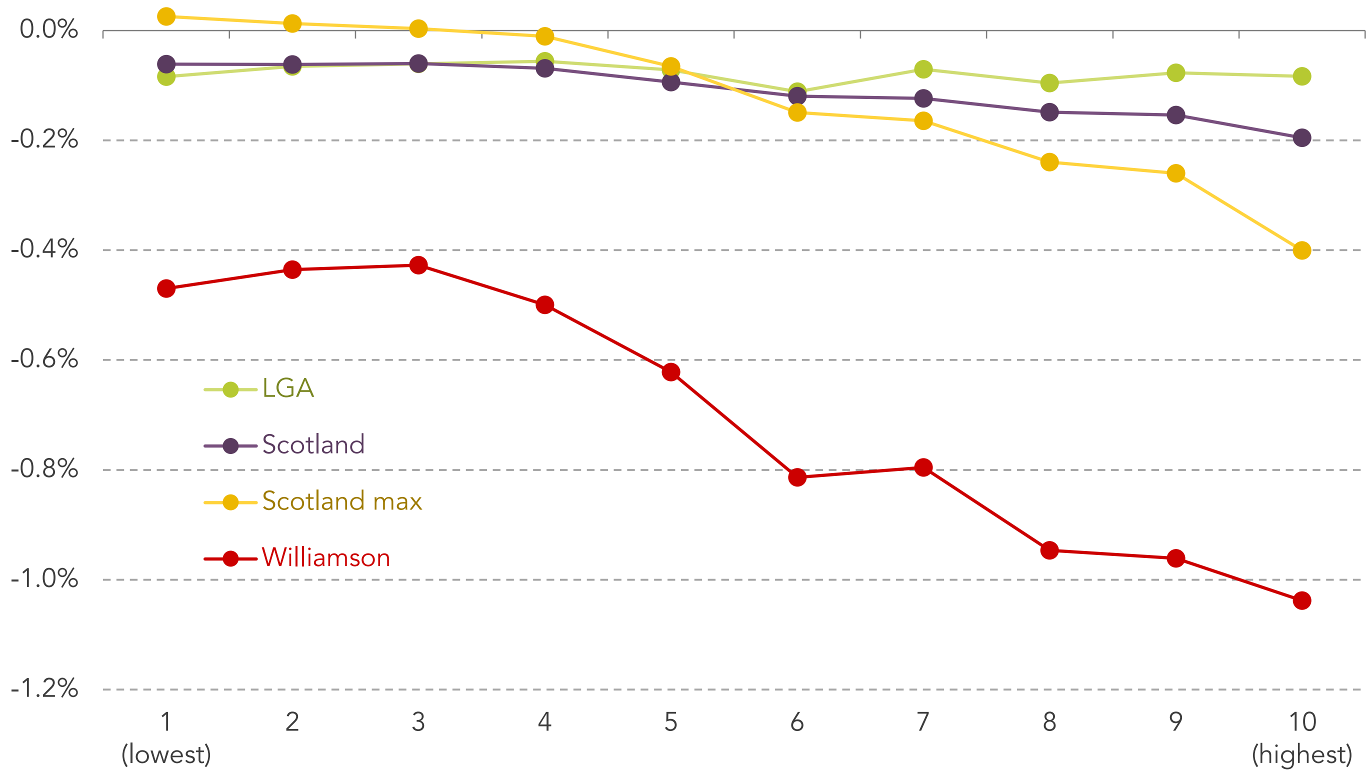
Notes: The 'Scotland' reform only affects households in England and Wales, however for simplicity and consistency, average impacts across the whole of Great Britain are shown. This chart shows median council tax in each £5,000 band of property value. This analysis covers gross council tax prior to reductions, on primary residences only. It incorporates a slightly more progressive structure in Wales, where an extra band 'I' was introduced for a minority of high value properties. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Figure 13 shows that all of these changes within the existing band structure are progressive across the income distribution in proportional terms, apart from the LGA option of removing the single person discount in bands E-H, which has fairly flat negative effects across income deciles.

Figure 13: **Options for changing council tax within the existing band structure generally affect higher-income households most**

Average proportional change in income from council tax reforms within the existing band structure, by equivalised disposable household income decile: GB, 2015-16



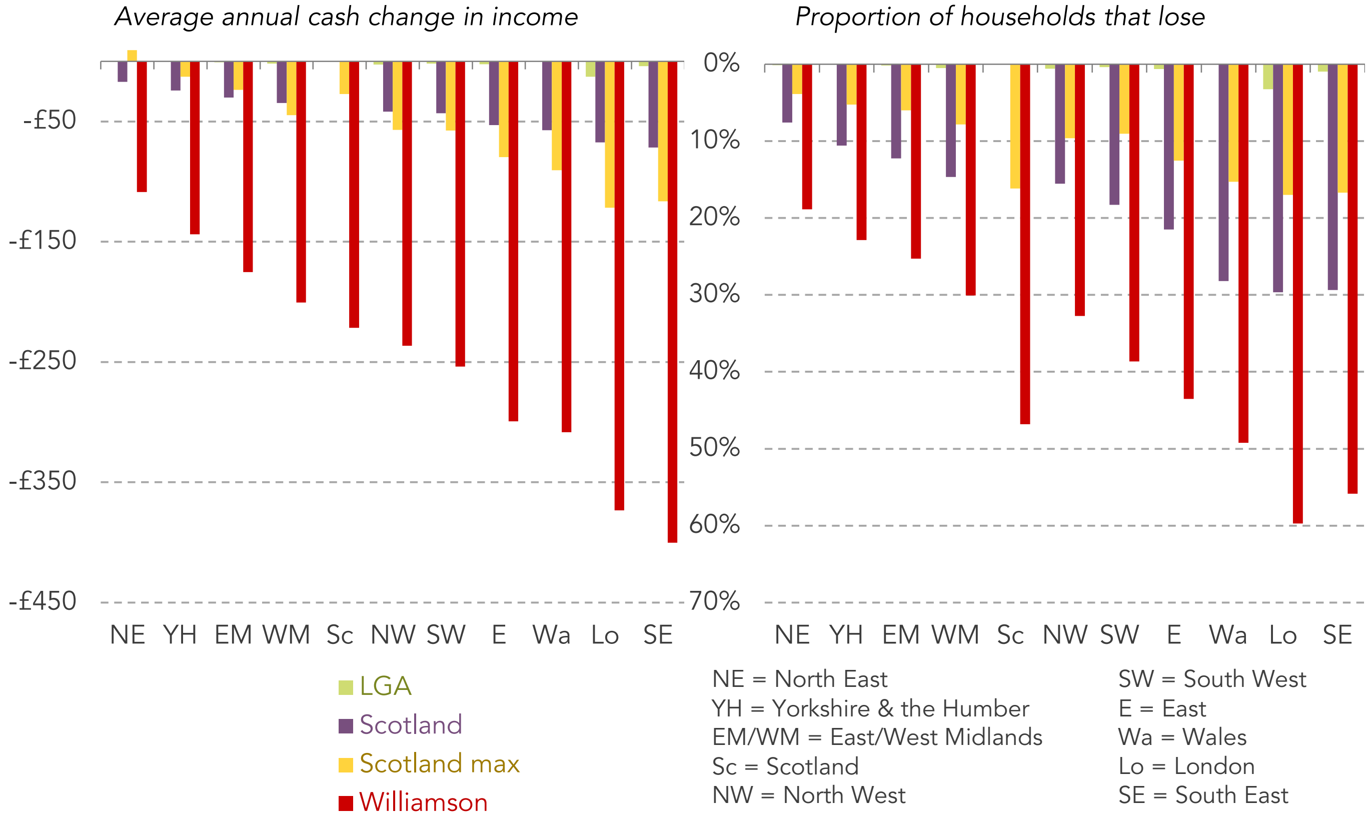
Note: The 'Scotland' reform only affects households in England and Wales, however for simplicity and consistency, average impacts across the whole of Great Britain are shown. This analysis covers primary residences only. Income is measured before housing costs, and changes account for council tax less council tax reduction. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Finally, Figure 14 shows the effect of these options across regions, with a minority of households experiencing income losses in most regions and nations under most options. In the case of the changes that raise the most revenue – the 'Scotland max' and 'Williamson' options – the cash income effects and the proportion of household experiencing income losses are twice as large in London and the South East as they are in the North East, Yorkshire and Humber and the East Midlands. It is worth noting again that we do not take account of any dynamic house price changes here, so these effects are likely to be somewhat overstated.

Figure 14: **Options for changing council tax within the existing band structure have the largest effects within Wales, London and the South East**

Impact of council tax reforms within the existing band structure, by region: GB, 2015-16



Note: The 'Scotland' reform only affects households in England and Wales, however for simplicity and consistency, average impacts across the whole of Great Britain are shown. This analysis covers primary residences only. Changes account for council tax less council tax reduction. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

It is important to note that Wales's 2003 revaluation gives it a different value-band relationship: explaining the large impacts from these band E-I changes despite average property values being relatively low in Wales. Similarly, Scotland's relatively high proportion of households that lose under the 'Scotland max' and 'Williamson' options is driven by the fact that its bands were set at lower values in 1991. If such reforms were to be implemented, clearly Wales and Scotland may choose a different approach to England for this reason, but we model the same policy across Britain for simplicity.

All the reforms discussed in this section ('Option A') would move council tax further away from its partial poll tax nature, but on the whole would still leave a regressive tax relative to property values. In addition, banding for most would continue to be relatively crude and based on the housing market in 1991, and these alternative approaches would bring none of the economic benefits of regular revaluation. Finally – aside from the Williamson model – none would make a significant contribution to our fiscal challenge, let alone providing the leeway to reduce stamp duty. To properly meet all of these challenges, more fundamental reform is likely needed.

Option B: Replace council tax with a proportional or progressive property tax

As set out in Section 2, there are strong economic arguments for a proportional recurrent property tax based on regular revaluation. This approach is favoured in many other recommendations, as set out in Box 4, and is also more in line with systems observed in other countries than our current approach to recurrent property taxation, as Box 5 summarises.

Box 5: International examples of property taxes

Ireland: A new system called Local Property Tax was introduced in 2013. Taxes are roughly based on 0.18 per cent of value up to €1 million – though with 19 discrete bands to facilitate valuation.[1] Properties worth more than €1 million pay 0.18 per cent of the first million (€1,800) plus 0.25 per cent on the value above that (e.g. a €2 million home would pay €4,300 a year). Local authorities can vary the tax rates by up to 15 per cent in either direction. In most cases, the owner is liable rather than tenants, and valuations are self-assessed but guided by indicative property values from the Revenue service – which can also challenge valuations. People in stretched financial circumstances can defer payment (with interest) until their financial circumstances improve or the property is sold. In addition, the tax can be paid directly from wages, pension income or benefits. Revaluation has been postponed from 2016 to 2019, and there are calls for a further postponement.

Netherlands: Each year, property owners receive an assessment of the valuation of their property ('WOZ') – though they can challenge this assessment. This is used to calculate rental income and imputed rental income ('Eigenwoningforfait') to which a progressive rate structure is applied (rising to 0.7 per cent for most, and then 2.35 per cent of marginal value at the very top), with the resulting value then added to taxable income. However, mortgage interest payments are deductible – which has been criticised for subsidising debt financing.[2] In addition, municipalities levy a property tax ('OZB'), paid by owners (not residential tenants). These rates vary from place to place, but in Amsterdam for example the rate is 0.04901 per cent of WOZ value, and in Lingewaard it is 0.118 per cent.

Denmark: The property value tax ('Ejendomsvaerdiskat') is set at 1 per cent of value up to 3,040,000 kroner (£359,000) and 3 per cent of the value above this. This applies only to owner-occupiers and summerhouses (with landlords paying tax on net profits on rental businesses instead) – replacing an earlier tax on imputed rents. However, any increase in value since 2002 has not been included in the tax – which contributed to a house price boom and then a downturn.[3] A separate land tax ('Grundskyld') is based on land values, at a rate of between 1.6 per cent and 3.4 per cent depending on the municipality, though year-on-year increases have been capped. Those aged 65 or over can defer the land tax (with interest) until death or sale. Agreement has been reached on fully re-linking both taxes with values from 2021, with some transitional protections.[4]

Singapore: Property tax is based on annual rental value (after reasonable deductions), and tax rates range from 10-20 per cent for let or vacant property (paid by the owner) and from 0-16 per cent for owner-occupiers.[5] Rental values are revised annually, estimated by the Inland Revenue based on characteristics and comparable properties for which data is available.

New York City: Properties are valued every year, in part using statistical analysis of similar properties' sale prices. Rates (e.g. 20.385 per cent for properties of up to three units) are applied to a fraction of that property value (e.g. 6 per cent for properties of up to three units) – with some limits on the rate of change of tax bills. The owner pays the tax. Often mortgage companies will pay the tax on your behalf using funds held in escrow. Across the US, effective tax rates range from 0.27 per cent of value in Hawaii to 2.35 per cent in New Jersey, with a median of around 1 per cent (Missouri).

1. www.citizensinformation.ie, accessed 16 March 2018
2. European Commission, Country Report The Netherlands 2017, February 2017
3. Danmarks Nationalbank, The Housing Bubble that Burst: Can House Prices be Explained? And Can Their Fluctuations be Dampened?, 2011
4. Danmarks Nationalbank, Housing Taxation Agreement Stabilises House Prices, September 2017
5. M Sim, 'Property tax in Singapore: Everything you need to know', *Property Guru*, 11 December 2014

On this basis there is a strong case for considering a complete overhaul and replacement of council tax with a proportional property tax. Options to this end are considered below.

Policy option

Abolish council tax and replace it with a property tax related to up-to-date values based on regular revaluations. This new tax should be either proportional to value or progressive via tax-free allowances and differential rates, potentially allowing for some regional variation.

Below we model the following five options for a complete replacement of council tax:

- **A proportional tax of 0.5 per cent ('0.5%')**: A flat *ad valorem* tax at a certain percentage of reassessed house value each year. Our analysis suggests a rate of 0.5 per cent of value would raise a small additional amount of money compared to the existing system, which could be used for mitigations such as increased protection for those on low incomes or the short-term fiscal cost of deferral (both discussed in the following section).

- **A slightly higher rate of 0.7 per cent ('0.7%')**: Of course the rate could be set higher than 0.5 per cent to raise additional revenue and/or allow stamp duty to be cut.

- **A 1 per cent tax rate with a £100,000 allowance per property ('1% above £100k allowance')**: An allowance makes property taxation more progressive, but would require a higher tax rate. A higher marginal rate would have a greater effect on dampening house price changes.

- **A 1 per cent tax rate with a regionally-specific allowance per property ('1% above regional allowance')**: Given huge geographic variations in house prices, any property tax based purely on value would involve very large redistribution between regions compared to council tax (explored in the following section). To reduce the scale of these changes, one approach would be to vary tax allowances by region or area.[40] We set allowances for each region so as to make the lowest 10 per cent of properties in each tax-free. These range (for 2015-16) from £72,000 in the North East to £160,000 in the South East and £240,000 in London.[41]

- **Tax bands of 1 per cent and 2 per cent, with a regionally-specific allowance per property ('1% above regional allowance + top rate of 2%')**: Going beyond a single rate and an allowance, more progressive rate schedules are possible. In this option we maintain the regional allowance per property (as above) but add a 2 per cent tax band for the highest value tenth of properties nationally – i.e. on marginal values above £500,000 in 2015-16.

In modelling all of these potential new systems we do not include any single person's discount or student exemptions. Given that one goal is to improve the functioning of the

40 In the long term, a purist property tax approach might suggest convergence of these allowances.

41 Choices surrounding local government financing – discussed in Section 4 – would strongly affect what regional or local variation would be advisable, of course, and we do not consider the implications of national devolution here.

property market, a new tax would be an opportunity to get rid of these inefficiencies while better protecting vulnerable groups in other ways (discussed in the following section in relation to council tax reduction schemes). As with the potential changes set out under Option A, our modelling is not able to capture second homes or empty properties (but results are scaled to include these in terms of revenues raised). However, there is a strong case for at least equalising the taxation of these properties with others.

Policy option

End discounts for second homes and empty properties and apply property tax on a purely household basis with no single person or other discounts.

Table 3 summarises the results in terms of revenues raised and gainers and losers. Reneues raised range from £1.6 billion under the '0.5%' option to £12.7 billion under the '0.7%' option. Only the '0.7%' option produces more 'losers' than 'gainers' (out of 26.3 million households overall). The average income loses of households that lose are more substantial under each of the three options that are progressive, well over £1,000 per year in each case.

Table 3: Options for replacing council tax with a proportional or progressive property tax: GB, 2015-16

		Net revenue	Average net tax	Average net tax as % income	Households that gain	Households that lose	Average gain of gainers	Average loss of losers
Current system		£28.1bn	£1,132	3.5%				
0.5%	Level	£29.8bn	£1,198	3.7%				
	Change	*+£1.6bn*	*+£66*	*+0.2ppts*	*17.0m*	*9.2m*	*+£322*	*-£788*
0.7%	Level	£40.9bn	£1,645	5.0%				
	Change	*+£12.7bn*	*+£513*	*+1.6ppts*	*9.5m*	*16.7m*	*+£216*	*-£934*
1% above £100k allowance	Level	£36.8bn	£1,480	4.5%				
	Change	*+£8.6bn*	*+£348*	*+1.1ppts*	*15.2m*	*10.9m*	*+£523*	*-£1,571*
1% above regional allowance	Level	£32.bn	£1,287	3.9%				
	Change	*+£3.8bn*	*+£155*	*+0.5ppts*	*17.1m*	*9.0m*	*+£522*	*-£1,436*
1% above regional allowance + top rate of 2%	Level	£36.5bn	£1,471	4.5%				
	Change	*+£8.4bn*	*+£340*	*+1.0ppts*	*17.1m*	*9.0m*	*+£522*	*-£1,974*

Note: All cash figures are annual. Net tax refers to tax less reduction schemes. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

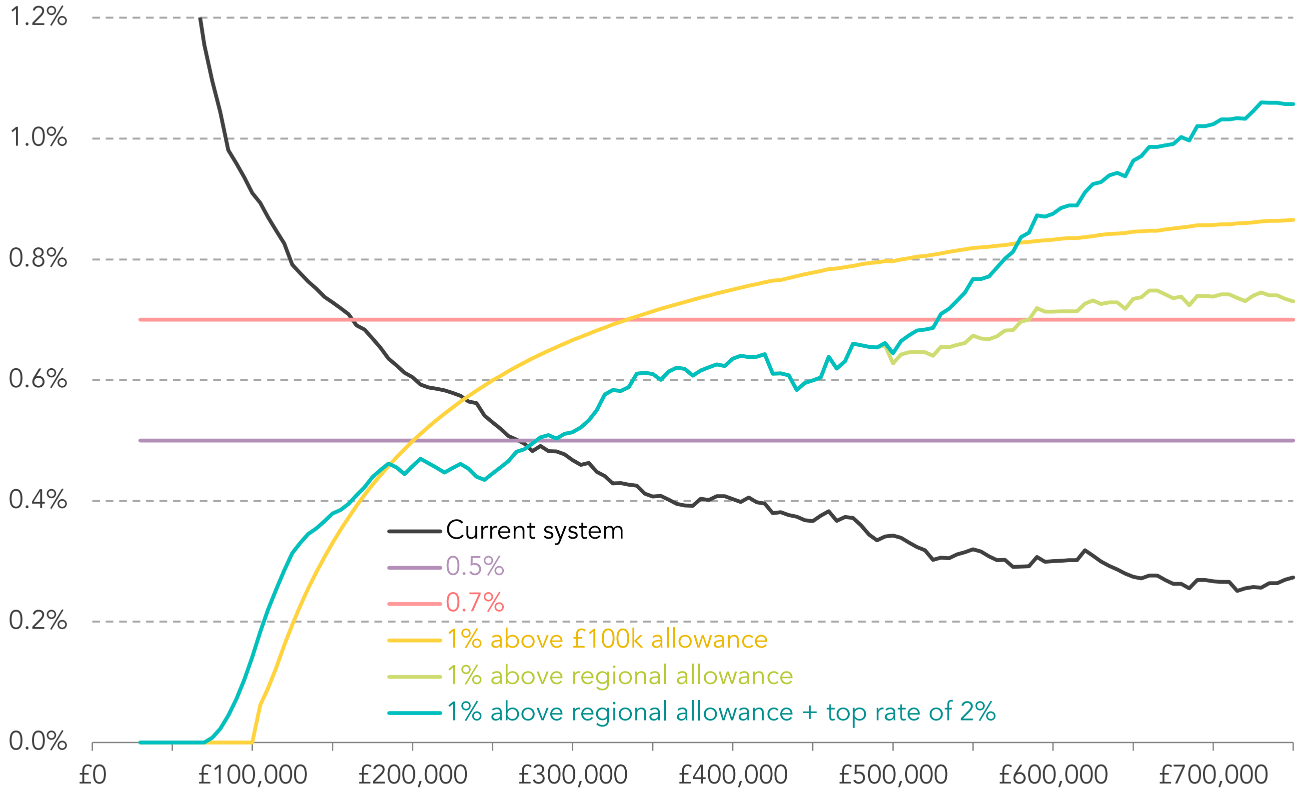
Source: RF analysis of ISER, *Understanding Society*

Figure 15 displays the progressivity of these options in respect of property values. As shown earlier (Figure 4), under council tax, rates are highest for the least valuable properties. Under the '0.5%' and '0.7%' options, the tax would of course be flat. A £100,000 allowance would take the lowest value properties out of tax entirely (partly reducing the need for offsetting benefit support) and lower effective rates for others – while requiring higher effective rates on more valuable properties for a given level of revenue.

Figure 16 shows the incidence of these options across the income distribution. Despite the fact that all five options raise substantial revenue, the poorer half of households are actually better off than under the current council tax system in each except the '0.7%' option (which raises the most revenue, at £12.7 billion). All have the greatest proportional impact on the highest-income households on average.

Figure 15: **Options for replacing council tax with a proportional or progressive tax contrast with its regressive nature**

Median annual council tax as a proportion of property value, by value of property and proportional tax reform option: GB, 2015-16

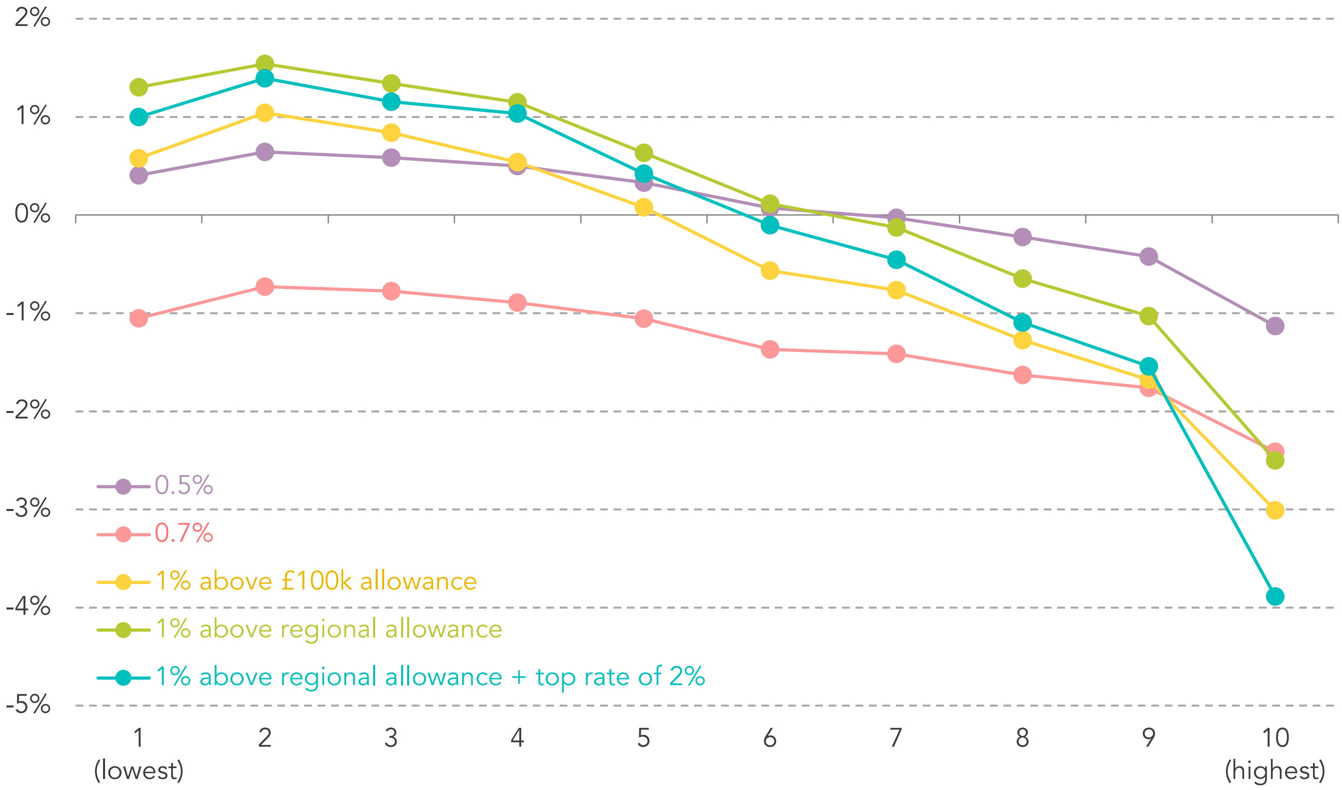


Notes: This chart shows median council tax in each £5,000 band of property value. This analysis covers gross council tax prior to reductions, on primary residences only. The current system incorporates a slightly more progressive structure in Wales, where an extra band 'I' was introduced for a minority of high value properties. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Figure 16: **Options for replacing council tax with a proportional or progressive property tax generally affect higher-income households most**

Average proportional change in income from the replacement of council tax with a proportional or progressive property tax, by equivalised disposable household income decile: GB, 2015-16



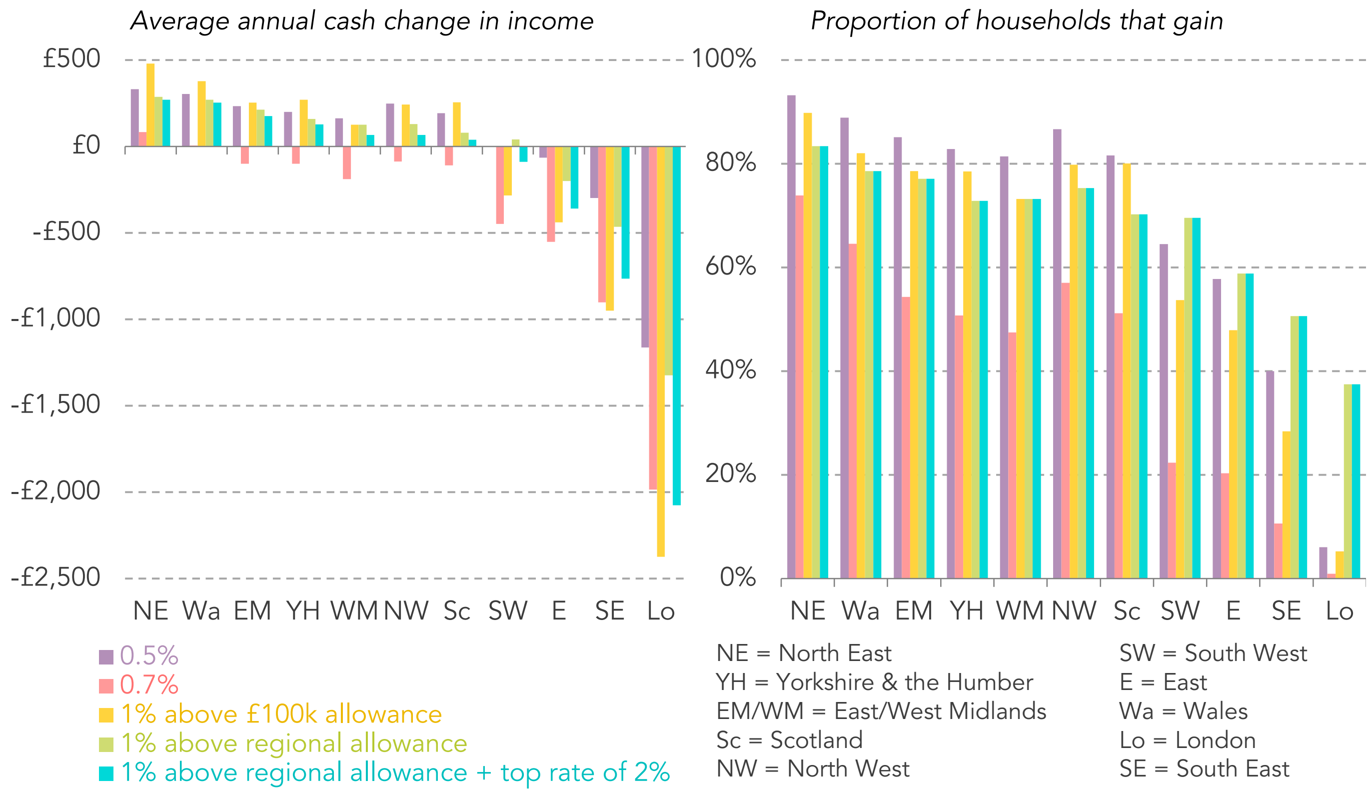
Note: This analysis covers primary residences only. Income is measured before housing costs, and changes account for the impact of reduction schemes. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Finally, Figure 17 shows that the effects of all these reform options are strongly concentrated in London and the South East. In fact, the left-hand panel in Figure 17 shows that all options apart from the '0.7%' one result in increases in household income (i.e. lower net tax bills) on average everywhere except London, the South East, the East of England and the South West.

Figure 17: **Options for replacing council tax with a proportional or progressive tax have concentrated effects in London and the South East**

Impact of replacing council tax with a proportional or progressive property tax, by region: GB, 2015-16



Note: This analysis covers primary residences only. Changes account for the impact of reduction schemes. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

In the same vein, the right-hand panel in Figure 17 shows that, apart from the '0.7%' option, all options in all regions outside the South of England result in a majority of 'gainers', i.e. households that would pay less tax than under the current council tax system. Furthermore, options including regional tax-free allowances would result in a majority of gainers in the South East, the East of England and the South West as well. Even in London, options with regional allowances would result in lower tax bills for 38 per cent of households. However, Figure 17 makes clear that options involving a proportional tax or a nationally determined tax-free allowance would result in the vast majority of households in London facing higher (or equal) council tax bills.

It should be noted that within Wales – where policy is devolved – the '0.7%' option is revenue-neutral, and results in 65 per cent of households gaining compared to council tax. In Scotland, such a policy would raise £300 million a year while leaving 51 per cent of households better off.

All of these results, however, are before any consideration of how any money raised might be used – which could include cuts to stamp duty.

Policy option

Use some of the additional revenues from the reform or replacement of council tax to reduce stamp duty.

Additional option: Reduce or abolish stamp duty

As discussed in Section 2, stamp duty has harmful economic (and intergenerational) effects through penalising moving, but it is at least a real property tax based on actual values – and it raises a lot of revenue in a progressive way. Were council tax to be substantially reformed or replaced along the lines set out above, the case for retaining stamp duty would be weakened. In addition, in the long run the distribution of losers from a proportional or progressive property tax would be similar – in terms of property value and region – to the distribution of winners from stamp duty cuts, allowing some losses to be offset.

So although revenue is needed for health, social care and other public spending pressures, a reformed or entirely new property tax raising additional revenues might present a chance to also reduce stamp duty. The options we presented in Table 3 raise between £1.7 and £12.7 billion – some of which could allow for a significant stamp duty reduction.

For illustration, the following options might be considered,[42] compared to a baseline of residential stamp duty raising £7.4 billion in 2018-19 (excluding additional properties):[43]

- Raising the stamp duty threshold (at which tax starts being paid) from £125,000 to £925,000 would cost £5.2 billion.[44]
- Lowering stamp duty to 1 per cent up to £925,000 and 5 per cent thereafter would cost £4.4 billion.
- Halving all rates of stamp duty (from their current levels of 2, 5, 10 and 12 per cent) would cost £3.2 billion.[45]
- Doubling the stamp duty threshold to £250,000 would cost £1.5 billion, but would not benefit most first time buyers, who are now exempt in this range, and would remove most of the advantage they now have.

There is therefore a continuum of options for reducing stamp duty, depending on the level of additional revenue raised from a new recurrent property tax or a reformed council tax, competing needs and the relative merits of taking properties out of stamp duty completely versus cutting rates. Also worthy of consideration (particularly from a generational perspective) is whether differences in the existing system – including lower rates for first-time buyers and higher rates for those purchasing additional

42 Note that there would be interactions between the revenue impacts of introducing a regularly revalued, proportional property tax and of cutting stamp duty – due to the effect of both on house prices and transaction volumes. For example, stamp duty cuts would likely raise house prices, which would in turn raise revenue under a reformed annual tax. We do not attempt to model such interactions.

43 Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2018

44 HMRC, *Direct effects of illustrative tax changes*, January 2018

45 This is less than half of the £7.4 billion in revenue due to certain HMRC assumptions about behavioural responses to the tax change.

properties – should be abolished, maintained, or indeed strengthened. Whatever the specific approach, it is important to note that stamp duty cuts may be an important part of making property tax reform an attractive political proposition.

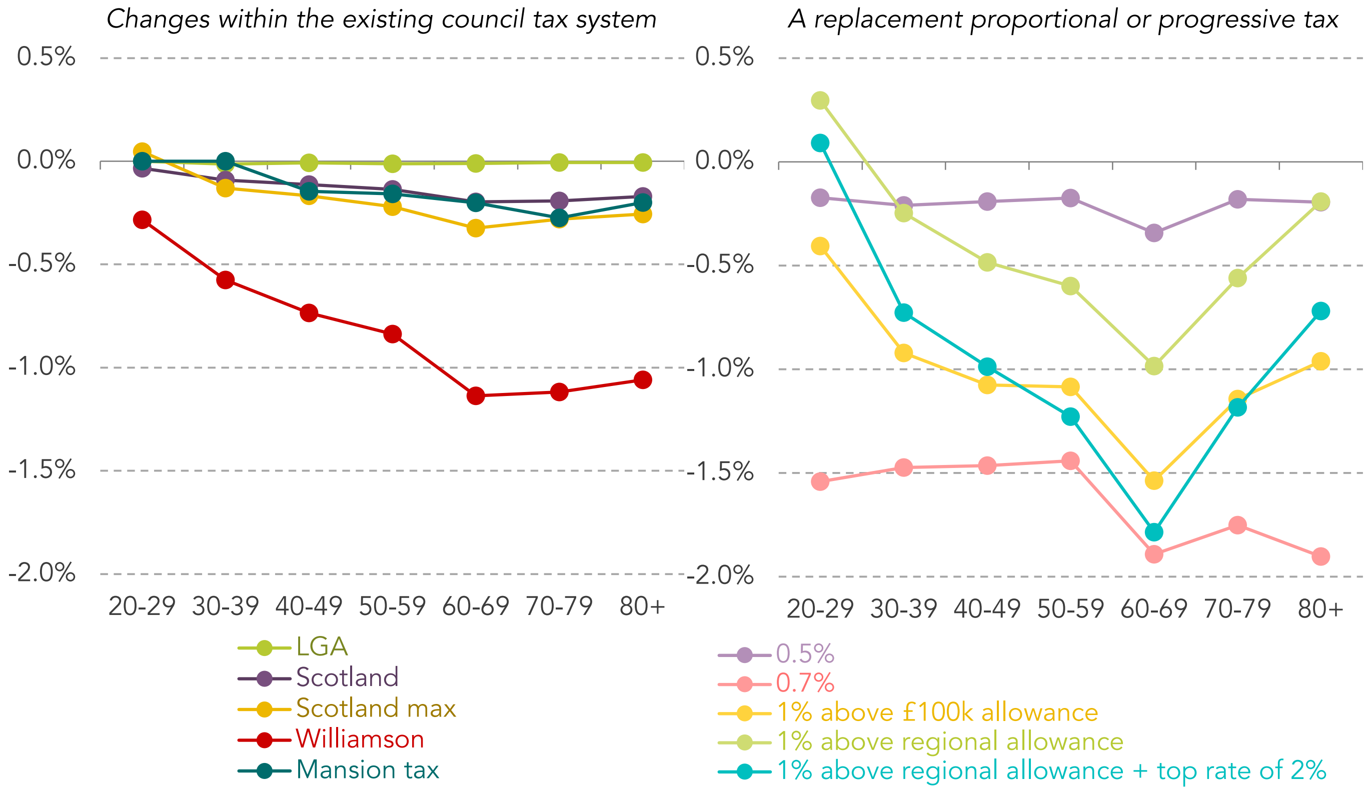
The generational perspective on these options

The options set out in this section would, to varying extents, address the generational arguments against our current approach to property taxation discussed in Section 2.

Figure 18 shows that average income changes under these options generally get larger with age at least up to the 60s. In particular, the three progressive options for a replacement tax (those that include tax-free allowances) all have a strong life-cycle profile in terms of average income changes, with smaller losses for the oldest households than for those in their 40s, 50s and 60s.

Figure 18: **Options for reforming or replacing council tax generally have the largest impacts on 60-something households**

Average proportional change in income from the reform or replacement of council tax, by equivalised disposable household income decile: GB, 2015-16



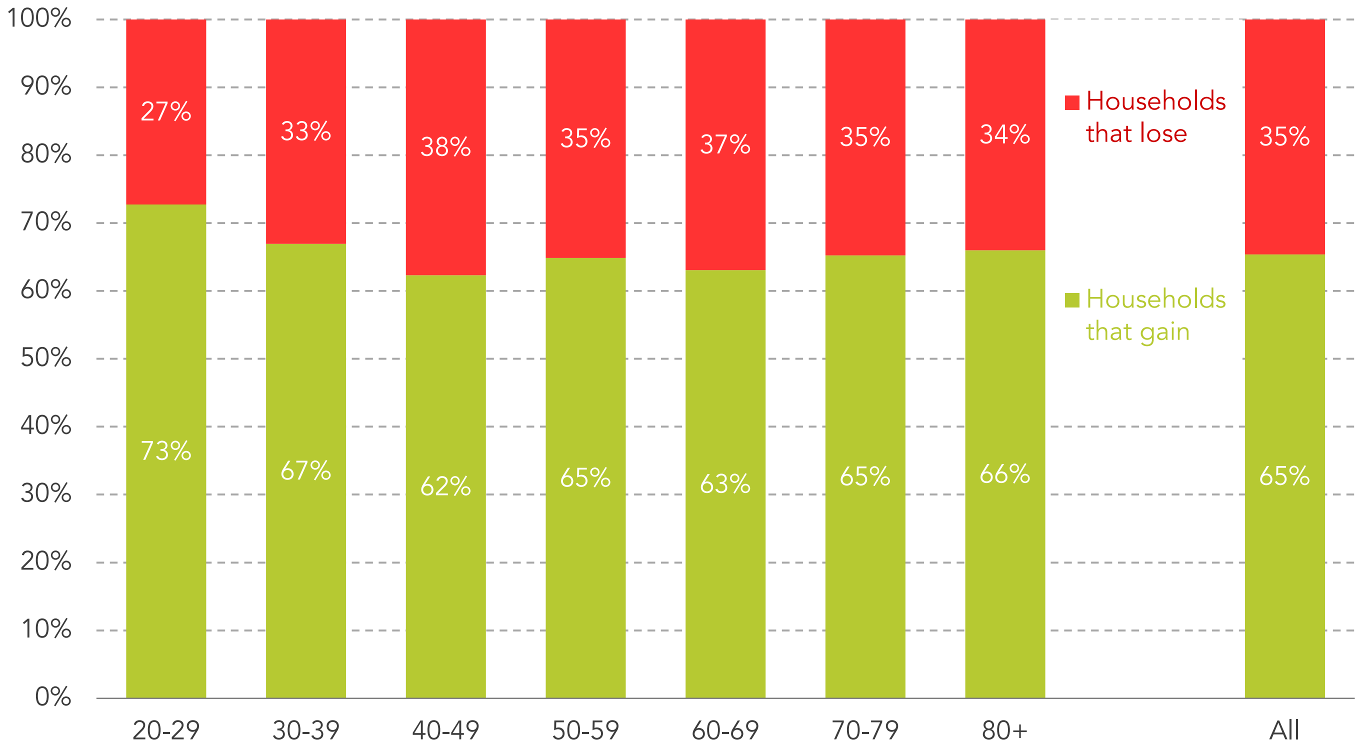
Notes: The 'Scotland' reform only affects households in England and Wales, however for simplicity and consistency, average impacts across the whole of Great Britain are shown. This analysis covers primary residences only. Income is measured before housing costs, and changes account for the impact of reduction schemes. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

While, for the most part, options for replacing council tax with a revenue-raising proportional or progressive tax lead to average losses within age groups (and in other demographic groups), it is important to note that the *median* change in income is generally positive. For example, under the '1% above regional allowance + top rate of 2%' option, the median income change among 20-29 year olds is +£310 per year, and even among 60-69 year olds the median change is +£200 among. However, the figures at the mean are +£25 and -£540 respectively. This stems from the fact that there are more 'gainers' than 'losers', particularly within younger age groups as Figure 19 shows, but that average losses are greater than average gains. Overall, despite this option raising £8.4 billion in additional revenue (and before considering how that money may be used), roughly two thirds of households gain (i.e. pay less tax) compared to the status quo.

Figure 19: **Households in their 20s and 30s are most likely to gain from council tax being replaced by a progressive property tax system**

Gainers and losers from replacing council tax with a '1% above regional allowance + top rate of 2%' tax system, by age: GB, 2015-16



Notes: This analysis covers primary residences only. Changes account for the impact of reduction schemes. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

As shown above, the basic structure of any property tax – its rates, allowances and bands – is crucial for determining its distribution. But there are other important questions beyond these basics, both for reform within the existing system and in any more radical change. We turn to these in the following section.

Section 4

Wider considerations when rethinking property tax

In the previous section we set out the costings and estimated incidence across various demographic groups of options for reforming or replacing council tax, and highlighted potential changes to stamp duty that could be made alongside these. In this section, we move from the 'mechanics' of tax reform to a range of related policy choices that would need to be considered in the process of substantially reforming or replacing council tax. These include the interactions between local and national government in the setting of tax and the redistribution of revenues raised; the incidence of tax on tenants as opposed to owners in the case of rented properties; the role of council tax reduction or other support via the benefits system; and the ability to defer payments or pay via housing equity.

We do not attempt to deal with each of these in full; rather we set out the main arguments for consideration and signal what we consider to be fruitful policy options in each area.

The challenges of values, valuations and implementation

Particularly in the case of the more progressive and revenue-boosting options for property tax reform we have considered, it should be noted that impacts in our modelling are annual and include no dynamic effects. However, in reality property tax changes are likely to be partially capitalised. That is, house prices will fall at the top in response to tax increases (potentially with small price increases at the bottom in response to tax decreases), reducing future tax revenues and creating windfall wealth changes immediately. This means that annual cash losses (or gains) for households would not be as great as shown in the previous section – with some rebalancing occurring through one-off house price changes instead.

A key part of any new system would be a new and frequent revaluation. As noted in the previous section, revaluations have so far proven controversial. But they are not technically difficult, and increasingly less so given improvements in data and technology. As explored in Box 5, many countries revalue annually, often estimating values using the great deal of available data on property prices together with a degree of owner feedback. This valuation data itself provides a useful service to home owners and society more broadly. It should be stressed that the need for regular, institutionalised revaluations is critical given the risks of self-perpetuating divergences between valuations and prices. However, international examples and technological solutions suggest this challenge is no longer the barrier it was in the 20th century.

One advantage from regular revaluation would be that revenue would automatically be raised where public investment (e.g. Crossrail, a new park or school improvements) leads to increases in property values – currently captured only in part through complex schemes. On the other hand, where development (e.g. new housing or new electricity generators) lowers residents' house values, they would be automatically compensated in part through lower taxation.

Another important implementation question is whether there would be any transition period between council tax and any new system. For example, tax liabilities could adjust gradually over several years rather than overnight. This might be particularly important given the one-off wealth impacts discussed above and any resulting effects on the loan-to-value position of those holding mortgage debt and on the financial sector at large.

While very important, these details of valuation and transition are not explored further in this report. However, there are other questions that are absolutely key to any reform. We now discuss those that must be addressed in any wholesale replacement of council tax (Option B), and then some that are relevant under both the existing system and replacements (Options A and B).

Sub-options for Option B *(a replacement tax)*

Sub-option: Would the tax be national or local?

The debate about national versus local taxation is too huge to properly explore in this paper, but it is a key decision for any reform of council tax. In fact, four interlinked questions might be identified.

First, should tax rates or allowances vary across the nation? A fixed rate of property tax across the country would fall very heavily on parts of the country with high property values – as stamp duty does now. Compared to council tax, in which band D rates vary by local authority, a uniform system would involve increasing taxes on the South East relative to the North of England, for example. There is merit to this approach but the likely scale of geographic redistribution of the resulting revenues would be politically difficult. As explored in the previous section, one way to reflect regional differences in house prices would be to have a national property tax rate but different tax-free allowances (at least initially) for each region or even each local authority.

Second, if variation is allowed, should local government have any power over the tax? While central government controls on council tax increases and on the required outputs of local government have been very stringent already, removing any discretion over council tax would be a major change to the power and politics of local government, at least unless offset by other changes in the opposite direction. Some local discretion in levels of property taxation – be that through tax rates or tax allowances – may therefore be important for local democracy.

One obvious example in this regard is Northern Ireland, where a 'regional' domestic rate of 0.4177 per cent of capital value is universal while councils set their own 'district rates' on top of this to fund local services, ranging from 0.2885 per cent to 0.4547 per cent. In Ireland (see Box 5), local authorities can vary the nationally-specified tax rates by up to 15 per cent in either direction. In those options put forward in the previous section that featured a main rate of 1 per cent this could mean, for example, allowing rates of between 0.85 per cent and 1.15 per cent of value (above the allowances).[46] But local

46 In our option with an additional 2 per cent rate, there would be a case for keeping this top rate fixed – given the geographic concentration of high-value properties.

finance settlements would be based on the use of a 1 per cent rate, i.e. a locality could opt for a lower rate but it would have to balance this through reduced or more efficient spending. As now, parishes, police commissioners, top-layer authorities etc. would be able to adjust rates too. Without any more radical reform of local government finance, an approach such as this would be likely to be needed in replacing council tax.

i Policy option

Allow local authorities to vary the main property tax rate, within limits.

Third, and relatedly, there is a question of where property tax revenue goes: to central government or to local government? This is a particularly complex question given the key role of redistributive grants from central to local government, and different possibilities for how services like social care and schools should be funded. It should also be noted that a strong link between tax and house prices would likely increase the volatility of revenue – which is more problematic for local government than for the Treasury.[47] And given the magnitude of changes in different parts of the country from the move to a proportional or progressive property tax (as set out in the previous section), quite a significant amount of redistribution of revenues between areas is likely to be necessary.

One option would be to match the workings of business rates (which have a uniform rate) in which half of revenue goes to the local authority and half to central government, with a complex redistribution system on top of that, and with some retention of new revenue to incentivise local development. If revenue from a domestic property tax did not flow at all to local government – and if we believe incentives matter for local government – the case for an alternative such as local allocation of income tax would strengthen.[48] But one advantage of maintaining some link between local government finances and revenues from property tax would be that local authorities would have strong financial incentives to approve sufficient new housing. As it stands, in areas where house prices and rents are high (indicating a need for more supply), council tax's regressive structure means that councils get far less revenue from each new home than a proportional or progressive property tax would provide.

Fourth, what is the money spent on? In large part, this is a question of perception, given the fungibility of government finances – and there is a strong case against full hypothecation of taxes. But it should be acknowledged that at present council tax is perceived to fund local services (though exactly which ones may be more vague to voters). Were a new tax to properly reflect changes in house prices – through regular revaluation and proportionality – a range of policy options would open up. For example, property tax revenue could go explicitly into regional or local infrastructure budgets, capturing the positive (and negative) impacts of public capital spending on house prices automatically (and a similar argument would apply to school standards). In this way, property tax reform could help improve the case for many forms of investment. However, given the need for social care funding – and the suitability of property wealth as a basis for this – it might also be appropriate for additional tax revenue to be explicitly or implicitly

47 J Muellbauer, 'Property Taxation and the Economy', in D Maxwell & A Vigor (eds.), *Land Value Tax: Worth the transition?*, Institute for Public Policy Research, 2005

48 D Phillips, *Beyond business rates?*, Local Government Information Unit, December 2011

earmarked for older age care. In any case, the potential political appeal of some form of hypothecation should be considered in trying to create a fairer and long-lasting replacement for council tax.

Again, this paper cannot address all these questions regarding local government finance in detail. There are many interlocking policy issues. But this should not paralyse policy-makers from crafting a better system than council tax.

Sub-option: Would a land tax be better?

Land value taxation is often discussed as an alternative to council tax, and has a long intellectual tradition. Council tax and, in particular, any progressive or proportional property tax are part-land tax and part-building tax as it is. There are theoretical and practical arguments either way in the question of whether it is better to tax residential property or just the land it stands on (though certainly the latter is harder to value).[49] Taxing land alone would reduce disincentives for people to spend money on improving properties – and increase the capture of price uplifts that result from new public infra-structure – but this might be at the expense of non-housing spending or investment. Relatedly, critics of land value taxation have argued that it would particularly penalise gardens and other undeveloped land, although green discounts such as those proposed by John Muellbauer (see Box 4) would mitigate against this criticism while also addressing environmental concerns. Another suggestion is that a new tax could, for example, be based in part on land values and in part on property values, with different tax rates on each.[50]

These considerations are important in terms of the design of a new tax. However, it seems to us that they are actually less important than the other decisions that must be made – regarding proportionality, revaluations, the amount of revenue raised, the degree of localism, and more – given the very strong relationship between property values and land values (particularly within localities).

There may be a separate argument about a land value tax for land that is vacant or in development, but this can be considered separately from council tax reform. Similarly, while a pure land value tax is often seen as a way of promoting efficient use of land, in many cases this relates to a necessary debate about what development the planning system should allow – again separate from council tax reform.

So, while a proportional land tax appears preferable to the current council tax system, the difference between taxing only land values and taxing property values – while worth debate – should not distract from the more fundamental questions discussed elsewhere in this report.

i Policy option

Base a new tax on property rather than land values (at least in the medium term).

49 J Mirrlees et al., *Tax by design*, Institute for Fiscal Studies, September 2011

50 J Muellbauer, private correspondence, 2017

Sub-option: Would a new tax be based on capital value or rental value?

An important question for any new recurrent property tax related to value is whether it should be linked to the capital value of the property (its price) or its rental value (actual or imputed annual rent). The latter is more in line with the idea of taxing consumption and/or imputed income. However, the former is likely slightly easier to assess (at least where the majority of homes are owned rather than rented), would arguably provide more useful information for taxpayers and is more in keeping with the idea of taxing wealth and capital gains.

The possible macroeconomic implications should also be considered. A tax related to capital values has the merit of more effectively dampening house price changes, counter-cyclically boosting the economy and reducing housing speculation. But this is because capital values are more volatile, which would mean revenues based on these would also be more volatile.

Importantly, this feature makes a tax on values less ideal for financing local services. However, in our view this underscores the requirement for some interactions with national government in terms of managing revenues over time (as well as across areas), rather than undermining the concept altogether.

Domestic rates were based on rental values (as business rates still are) while council tax is based on (out-of-date) capital values. Internationally, capital valuation is the more widely used approach but both are used (see Box 5). Northern Ireland moved from a rental to capital value approach in 2005, in part as a result of views expressed through a consultation process.

i Policy option

Base a new tax on capital rather than rental values.

Options under both Option A *(council tax)* and Option B *(a replacement tax)*

Sub-option: Should property tax be paid by owners rather than tenants?

As demonstrated in Box 5, the UK is unusual by international standards in levying its property tax on the occupiers rather than owners of property. In the long run, this choice might have little impact on the incidence of tax – as rents could be expected to rise in compensation if tax were moved to owners – but there is a strong case for change even on purely administrative grounds. Were the tax to move to owners, the 20 per cent of houses let privately (4.5 million) and the 17 per cent in the social sector (3.9 million) in England would no longer have to deal with council tax at all.[51]

51 2015-16. Source: MHCLG, *English Housing Survey*

Note that some housing associations manage tens of thousands – or even over 100,000 – dwellings each, and could deal with administration centrally rather than each household managing its own council tax. Given that owners change less frequently than tenants, the number of changes in council tax arrangements would also be drastically reduced. The administrative savings for individuals and for councils should be very considerable.

And the human cost of existing council tax administration should also be noted. Reportedly almost three million people in England were taken to court in 2013-14 over council tax arrears;[52] 26 per cent of calls to the National Debtline relate to council tax and it is the most common debt problem raised with Citizens Advice;[53] £2.8 billion in arrears is outstanding; and in 352 local authorities alone, 1.4 million council tax arrears were passed to bailiffs in 2016-17.[54] Much of the recent increase in arrears relates to changes to council tax reduction, but it is credible that much of the above could be ended by moving responsibility for paying the tax.

One counterargument is that renters may have closer links with local services than their landlords do – as the latter may not even live in the area. The issue discussed here therefore interacts with that discussed above with regards local versus national taxation and the operation of local democracy. That said, it would be perverse to make local government finance more administratively burdensome than it needs to be purely to try and strengthen the links between local government and local voters. And landlords clearly have a stake in the local services and environment through their property's value – while renters may only be in the area temporarily. In addition, the direction of travel in terms of other taxes – including income tax and stamp duty – has been to reduce the tax base altogether by increasing tax-free allowances, so this argument about the breadth of the local tax based runs counter to the current mood in terms of the national one.

It should also be noted that a sufficiently generous allowance per property, as in some of the Option B approaches, would take a fair portion of rented housing out of property tax in any case.

i Policy option

Move property taxation to owners rather than occupiers.

Whether property taxes are levied on renters or occupiers, it should be noted that renters lose less than owner-occupiers under all of the proportional or progressive (Option B) tax systems set out in the previous section, as shown by the left-hand panel in Figure 20. Furthermore, the right-hand panel in Figure 20 shows that under the progressive options (those including tax-free allowances) more renters than owner-occupiers gain from the change.

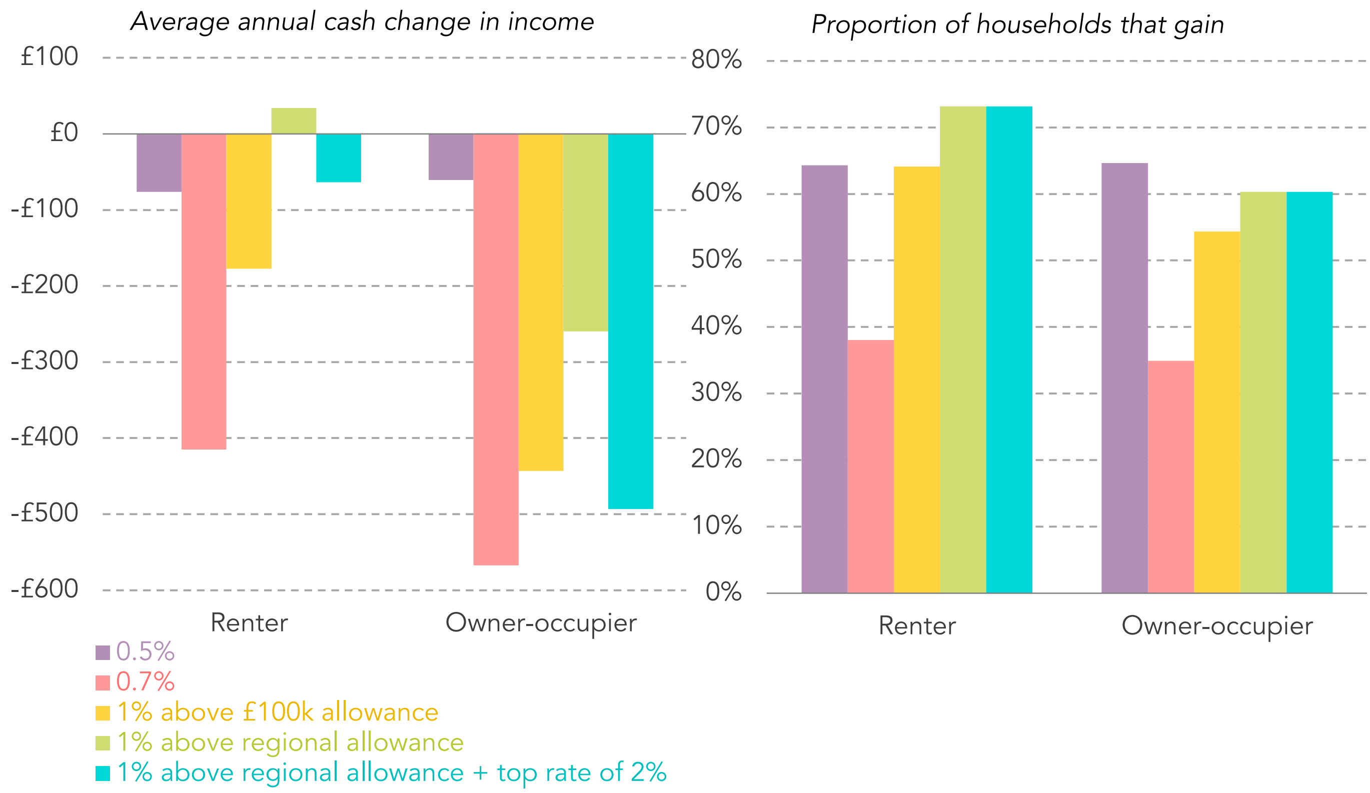
52 E Dugan, 'Half a million more people summoned to court over unpaid council tax, after benefits scrapped', *Independent*, 6 April 2015

53 Source: Citizens Advice, *Advice trends 2017/18*

54 Money Advice Trust, *Stop the Knock: Mapping local authority debt collection practices in England and Wales*, November 2017

Figure 20: **Options for replacing council tax with a proportional or progressive tax increase bills for owners more than renters**

Impact of replacing council tax with a proportional or progressive property tax, by housing tenure: GB, 2015-16



Note: This analysis covers primary residences only. Changes account for the impact of reduction schemes. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Finally, if the burden of the tax did move to owners at all in the transfer of incidence – rather than being passed on 100 per cent through rents – then the average losses among renters shown in Figure 20 would be smaller still.

Sub-option: How could benefit support be reformed?

Council tax reduction – also known as Council Tax Support or Council Tax Benefit – should not be ignored in discussion of property taxation. In 2012-13 (the latest year where data is available) total spending (or rather negative taxation) in Great Britain was almost £5 billion.[55] However, support for low-income working-age families (but not pensioners) was then cut by £500 million in the transition from Council Tax Benefit to localised reduction schemes. One simple reform under the existing system would therefore be to reverse this cut and reintroduce parity between non-pensioner and pensioner households. In particular this would involve getting rid of minimum payments, which are the most common way in which councils have reduced support and

55 Source: DWP, *Benefit expenditure and caseload tables 2017*

are particularly regressive as well as being administratively burdensome (by making many household that would otherwise be outside of the system liable for relatively small amounts of council tax).

Alongside the 2017 changes to council tax rates in top bands, reforms in Scotland boosted child 'allowances' in council tax reduction calculations by 25 per cent, and another option would be to replicate an approach such as this elsewhere.

However, take-up of council tax reduction is believed to be low,[56] and it is not one of the benefits being integrated under Universal Credit (UC). There is therefore potential to use UC as an opportunity to create a simpler and more efficient system. The savings from administrative integration could in fact be large enough to fund a reversal of the afore-mentioned cut, as local authorities currently spend £800 million a year on council tax reduction administration.[57] Going further, a more generous, more costly option would be to fully integrate council tax reduction and UC, with most families on UC then effectively being exempt from council tax (perhaps up to a certain band or property value).[58] Such increases in the generosity of council tax reduction or a replacement are an option under both the existing council tax system and any replacement tax. Although a more progressive tax structure in relation to property value (and the deferral option discussed below) may reduce the need for such support, it would certainly not eliminate it.

i Policy option:

Increase the generosity and efficiency of income-based means-tested support for property taxes.

If property tax were to move from tenants to owners (as discussed above), this would take renters out of both council tax and council tax reduction. However, it is likely that rents would rise to move the financial burden back to the tenants, at least in part. All else equal this could leave low income renters worse off without council tax reduction. But so long as Housing Benefit or its UC equivalent can rise – or be actively increased – to compensate, this should be easy to fix as well as being administratively simpler. For homeowners, either council tax reduction could continue or other elements of the benefits system could be increased, for example within the national UC system. And – in the move to a proportional or progressive property tax without discounts – benefits could be weighted to help single people in a similar way to the existing single person's discount.

We can demonstrate amendments to council tax reduction on top of the switch to a progressive property tax. In Table 4 we show:

- A return to the system before 2013 in England, removing the 10 per cent cut to working-age support when the scheme was localised.
- A 25 per cent increase in all council tax reduction 'allowances'.

56 Statistics have not been produced since 2009-10.

57 D Finch, *Making the most of UC*, Resolution Foundation, June 2015

58 Again, see: D Finch, *Making the most of UC*, Resolution Foundation, June 2015

Table 4: Options for enhancing council tax reduction alongside a progressive property tax: GB, 2015-16

		Net revenue	Average net tax	Average net tax as % income	Households that gain	Households that lose	Average gain of gainers	Average loss of losers
Current system		£28.1bn	£1,132	3.5%				
1% above regional allowance + top rate of 2%	Level	£36.5bn	£1,471	4.5%				
	Change	+£8.4bn	+£340	+1.0ppts	17.1m	9.0m	+£522	-£1,974
+ pre-2013 council tax reduction system	Level	£35.6bn	£1,432	4.4%				
	Change	+£7.4bn	+£300	+0.9ppts	17.3m	8.9m	+£520	-£1,908
+ higher allowances	Level	£34.7bn	£1,397	4.3%				
	Change	+£6.6bn	+£265	+0.8ppts	17.7m	8.5m	+£526	-£1,921

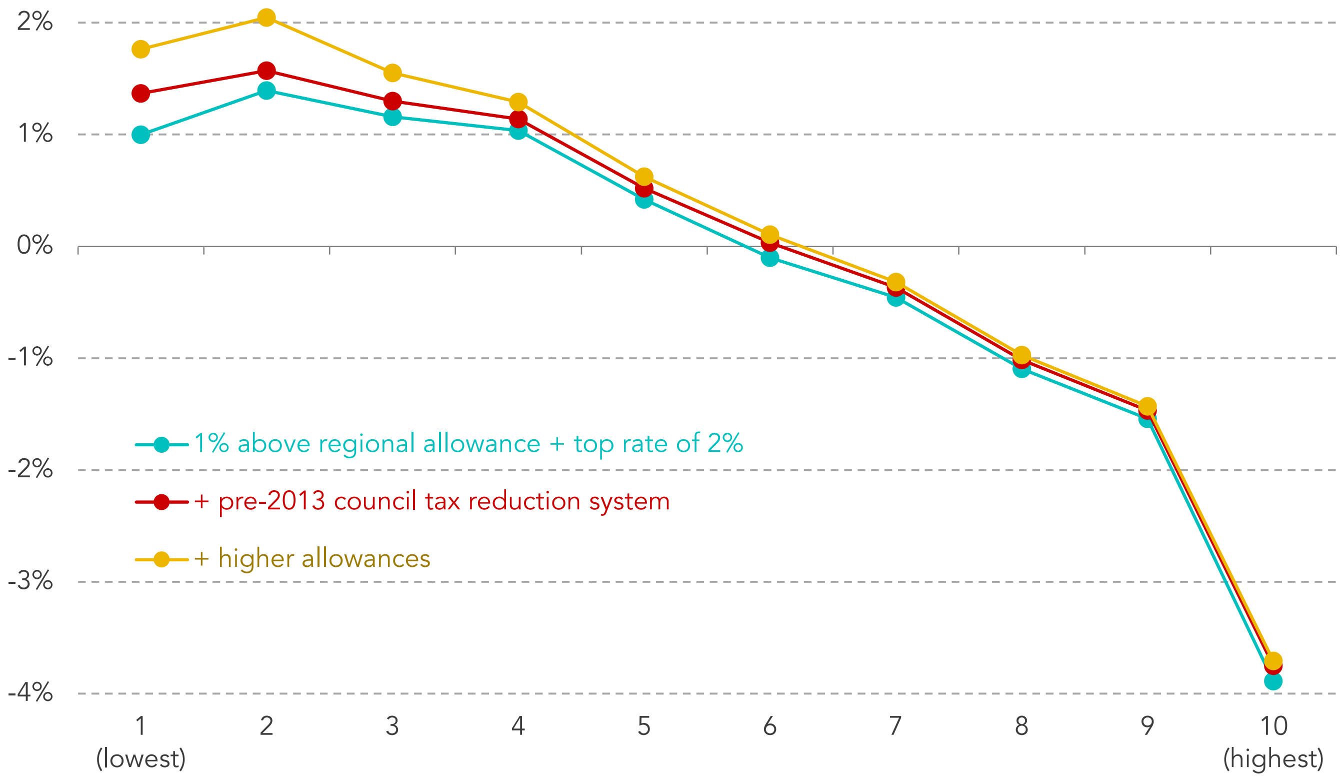
Note: All cash figures are annual. Net tax refers to council tax less council tax reduction. Income is measured before housing costs. The 'pre-2013 system' reform only affects households in England as Scotland and Wales have maintained support levels since 2013, however for simplicity and consistency, average impacts across the whole of Great Britain are shown. 'Higher allowances' are modelling in addition to a reversion to the pre-2013 system of support. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Such policies would further reduce the number of losers from reform, while at the same time reducing the net revenue raised. This extra support would be well-targeted to low-income households. Returning to the pre-2013 system and additionally increasing allowances by 25 per cent would reduce the number of households in the bottom income decile that lose from 505,000 to 75,000. As Figure 21 shows, this would make reform still more progressive.

Figure 21: **Boosting the generosity of council tax reduction would further increase the average gains from reform at the bottom of the income distribution**

Average proportional change in income from the replacement of council tax with a progressive property tax plus changes to council tax reduction, by equivalised disposable household income decile: GB, 2015-16



Note: The 'pre-2013 system' reform only affects households in England as Scotland and Wales have maintained support levels since 2013, however for simplicity and consistency, average impacts across the whole of Great Britain are shown. 'Higher allowances' are modelling in addition to a reversion to the pre-2013 system of support. This analysis covers primary residences only. Income is measured before housing costs. Impacts do not include any benefits stemming from additional revenue raised. See Annex for full methodological details.

Source: RF analysis of ISER, *Understanding Society*

Sub-option: Could payment be deducted at source?

Income tax and National Insurance are, for most people, paid automatically in the UK – with little administrative burden on the individual's part. Council tax on the other hand requires more active work, and is also therefore more politically salient. In many countries, however, the property tax payment system is more streamlined.

In Ireland, for example, residents can arrange for their Local Property Tax to be deducted at source from their salary or occupational pension or social security payments: this is considered the easiest and most convenient way to pay. If tax payments are outstanding, deduction at source can also be applied mandatorily.

In the United States, a common alternative is for mortgage lenders to also pay people's real estate taxes (and insurance), with payments set aside in escrow for this purpose.

Such options deserve serious consideration to make council tax or any replacement system easier for taxpayers. Particularly when combined with the option of removing renters from the system and of integrating council tax reduction into Universal Credit, there seems to be considerable potential for improvement in the administrative burden of property taxes.

i Policy option

Make property tax payment more convenient by facilitating payment directly through PAYE and other existing tax collection mechanisms.

Sub-option: Do we need a new ability to defer or to pay in kind?

Whether under council tax or a new system, there is a strong case for allowing deferral of payment. A similar alternative would be to allow payment in the form of a share of the house.[59] Given the common objection used against higher property taxes – that they negatively affect cash-poor, asset-rich pensioners – it makes sense to essentially allow payment in the form of assets rather than cash. In fact, such an approach would be one way of making equity release more accessible than at present, allowing a boost to living standards for middle-income pensioners and reducing concerns about the volatility of property taxes. A well-functioning deferral mechanism would also somewhat reduce the need for council tax reduction or the single person's discount or similar – as discussed above.

As mentioned in Box 5 in the previous section, deferral schemes are common around the world, including Ireland, Denmark, the US and Canada. Often these are available to those over a certain age (e.g. 55, 62 or 65), but may also be available to those with children, those facing financial difficulties and/or through means-testing. And in the UK, local authorities already offer deferred payment agreements for some social care costs, though their use is limited at the moment.[60] Proposals that have been made to

59 D Maxwell & A Vigor (eds.), *Land Value Tax: Worth the transition?*, Institute for Public Policy Research, 2005; A Atkinson, *Inequality – What can be done?*, Harvard University Press, 2015

60 D Vasilev, 'Funding social care: the role of deferred payment agreements', *Reform blog*, 13 March 2017

reform social care funding such as those in the 2017 Conservative Manifesto would – like property tax reform – point to a need for a national deferral infrastructure in any case.

Key considerations, alongside eligibility, are what the interest rate should be, and in what circumstances other than death (e.g. moving or re-mortgaging) deferred tax should be paid. Deferral would also have potential implications for short-term central or local government finances (with the former better-placed to deal with this), depending on the details of the system: though in the long run whether people pay in cash, debt or equity makes little fiscal difference.

Policy option

Allow deferral of payment, or payment in the form of equity.

In this section we have moved from the mechanics, costings and incidence of reforms to property tax to the wider policy details that any such reforms would have to grapple with. We have not attempted to deal with each of these in full, but rather have set out the main arguments for consideration and signalled what the most fruitful policy approaches might be. In the following section we provide concluding remarks on the analysis set out in this report.

Section 5

Conclusion

Britain's fiscal challenges will require tough choices to be made over the coming years, and raising additional revenues is never easy. However, in the case of council tax there is great potential to raise revenue while also making the tax system easier and fairer and making the housing market more efficient. Council tax is based on valuations from over a quarter of a century earlier, and this is not even its biggest problem. It is high time that council tax reform gets the political debate it deserves.

In this paper we have explored a wide range of options for reforming or replacing council tax, raising between £0.1 billion and £12.7 billion in extra revenues per year. For example, a system with regional variation (as well as the potential for local variation) and a progressive structure would, after allowing a reversal of recent cuts to council tax reduction, raise an estimated £7.4 billion a year. Supposing that almost half of this was used to halve stamp duty rates on primary residences, this would still leave £4.2 billion to help address the UK's health and social care challenges.

And a package of reform would not necessarily be unpopular: the options outlined in this paper suggest that even while increasing tax revenues overall, the majority of households could easily be made better off by reform – often significantly. Means-tested support for those on low incomes could be boosted. All renters could be taken out of the system entirely. Older owners could pay via deferral or equity – leaving them with more cash than at present. Payment could be made easier. And stamp duty could be greatly reduced. More policy development is clearly needed on many aspects of reform – not least the questions of local versus national taxation, the possibility of phased transition, and the details of tax deferral. But a fairer property tax system – intergenerationally, distributionally and regionally – that also makes the housing market more efficient and less volatile is very much possible.

Finally, although England has the most regressive property tax structure in the UK, the case for reform is almost equally strong in Wales and Scotland, and reform could happen independently – and differently – in each. And improvements could also be made to Northern Ireland's rates system.

Of course, reforming council tax and stamp duty are not the only changes that are needed to our tax system or economy. This paper is one of a series produced for the Intergenerational Commission setting out options for its consideration as it formulates policy recommendations. Reflecting on these and other options, the final report of the Intergenerational Commission will propose a package of policies for a renewal of Britain's intergenerational contract.

Annex: Methodology

Our analysis of the current council tax system and our modelling of various alternative approaches to property taxation is based on surveys capturing households in Great Britain. Principally, we use *Understanding Society* compiled by the Institute for Social and Economic Research (and its predecessor the *British Household Panel Survey* when assessing developments over time), with additional analysis conducted using *the Family Resources Survey* (Department for Work and Pensions) and the *Wealth and Assets Survey* (Office for National Statistics). Throughout this analysis we exclude Northern Ireland due to its partial coverage in some of these surveys and because it retains a system of domestic rates rather than council tax.

A key feature of our assessment of council tax in relation to current property values – and of alternative approaches to property taxation that are proportional or progressive in relation to up-to-date property values – is estimates of the value of rented and owner-occupied housing in Britain. *Understanding Society* provides such data for primary residences that are owner-occupied. In this dataset we impute the value of rented properties by statistically matching them to 'similar' owner-occupied properties based on region, year, council tax band and monthly rent (which is assumed to correlate with property values at a given point in time). Obtaining a full picture of current property values across owner-occupier and renter households is not possible in the *Family Resources Survey*, meaning that *Understanding Society* is used for all our policy modelling. However for those policy alternatives that do not require property value information (i.e. most of those under 'Option A' in Section 3), analysis has been replicated in the *Family Resources Survey* as a cross-check, producing very similar results.

On the basis of household characteristics including region, council tax band, property value, income, earnings, number of adults, number of students, savings and receipt of 'passported' benefits, we model the current council tax system and the various alternative policies set out in Section 3. Across systems we also model the impact of council tax reduction in order to estimate changes in households' 'net tax'.

Because it better-captures high-wealth households than other surveys, the *Wealth and Assets Survey* is used to model the effects of the 'mansion tax' policy option. It is not possible to impute the value of rented properties in this dataset, so estimates are based on owner-occupier households only. However, revenues and income changes are scaled to include renters based on the proportion of £2 million-plus houses that are rented according to imputed property value data in *Understanding Society*.

Throughout this report, our analysis covers the primary residences of all households in Great Britain. This means that we do not specifically address the taxation of second homes and empty properties. However, when estimating the revenues raised by alternative policy approaches we scale these to the current net council tax take in Great Britain. It is likely that this approach underestimates the revenue that alternative policy options would raise from second and empty properties, given that they tend to be taxed more lightly than primary residences at present.

In addition to these main methodological specifications, further parameters of our modelling are as follows:

- Age is based on the average age of adults in the primary benefit unit (family) in each household.
- *Understanding Society* and *British Household Panel Survey* data are reweighted to match the household population in Great Britain as measured in the *Labour Force Survey* (Office for National Statistics), in terms of age and housing tenure in each year. This corrects for attrition from this longitudinal survey (particularly by young adults and renters) and the switch from the *British Household Panel Survey* to *Understanding Society*, neither of which is fully accounted for by the cross-sectional weights.
- Results are modelled on 2015-16 data and expressed in 2015-16 prices (2014-16 data in the Wealth and Assets Survey, but expressed in 2015-16 prices). The council tax system is modelled as it existed in 2015-16, apart from the fact that in Scotland we include the higher rates on top bands introduced in April 2017.
- Council tax rates for 2015-16 are applied at the regional level, based on an average of rates across local authorities in each region, weighted by each local authority's council tax base. Note that using regional averages means we fail to capture the full variation in council tax rates, and specifically the ability of local authorities with higher-value properties to charge relatively lower council tax than those with lower-value properties even within regions. While the relationship between council tax rates and property values within regions does not appear clear-cut, this means that we may somewhat understate the regressivity of the council tax system, and conversely may slightly overestimate the revenues raised from reforms that maintain the existing band structure (those under 'Option A' in Section 3). However, reassuringly, rougher estimates based on the number of dwellings in each council tax band in each local authority in England (within which we are not able to accurately account for council tax reduction entitlements), produce similar results in terms of changes in gross council tax revenue.
- Local council tax reduction schemes that have operated in England since 2013 are simulated based on the proportion of local authorities in England making various changes relative to the Council Tax Benefit system these schemes replaced, for example minimum payments. Information on council tax reduction schemes is drawn from www.counciltaxsupport.org.
- Take-up of council tax reduction is accounted for based on historical estimates of take-up under the Council Tax Benefit system for different types of household.[61] Take-up figures for the new local council tax reduction schemes are not available.
- Our policy modelling does not capture any dynamic effects, for example the impact of tax changes on property values or on the houses people choose to live in.

61 Source: DWP, *Income-related benefits: estimates of take-up: financial year 2009/10*

Resolution Foundation

Intergenerational Commission

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

undertaking research and economic analysis to understand the challenges facing people on a low to middle income;

developing practical and effective policy proposals; and

engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this Report, contact:

Adam Corlett Senior Economic Analyst

adam.corlett@resolutionfoundation.org

020 3372 2983