

Briefing for the Citizen Participation and Public Petitions Committee on petition PE2096: Review the council tax system, lodged by Eleanor Fraser

Brief overview of issues raised by the petition

The petitioner calls on the Scottish Parliament to urge the Scottish Government to start a review into the council tax system to consider whether rates could be set per capita, rather than by property value.

Introduction

Council tax was introduced in 1993 as a local property tax, and most households across the UK have to pay it. It is collected by local authorities and it helps fund local services. In financial year 2022-23, the tax brought in over £2.7 billion for Scotland's councils, roughly 12% of total local government income. Writing in 2004, Professor Allan McConnell stated:

“...[council tax's] core principle is that local taxation be based on property ownership and occupation (unlike the Poll Tax which was premised on each individual benefitting from access to local services), with this being a broad indicator of 'ability to pay' and 'fairness'”.

The fairness, or otherwise, of council tax has been debated for decades. Indeed, the abolition of the tax was a 2007 SNP manifesto commitment, although a replacement tax could not be agreed between the minority Scottish Government and the opposition parties in Parliament. Some 8 years later, the Commission on Local Tax Reform was established to explore alternatives to council tax¹. This concluded that “the present Council Tax system must end”. However, only limited reforms were implemented as a result of the Commission's work, and the tax remains pretty much as it was in the 1990s.

Local taxation is devolved, so it is in the Scottish Parliament's powers to abolish, replace or alter the current council tax system in Scotland. The House of Commons Library [recently noted](#) that even after 24 years of devolution, “council tax arrangements in Scotland are broadly similar to those in England and Wales”.

How are council tax bills calculated?

¹ The Commission's website does not appear to be working; however, SPICe has hard copies and pdfs of the Commission's report and can provide to Members and staff on request.

Council tax is paid by occupiers of domestic properties, and the amount paid depends on the valuation band that a property is placed in (A-H). Properties are assessed with a judgement made as to what the property would have been valued at in 1991. Assessors then place properties into one of 8 bands, ranging from A (the lowest value) to H (the highest). Councils set the band D rate each year as part of their budget setting process, and the rates for the other bands are calculated as a ratio of band D. These ratios are set nationally.

Households receive their bill for the forthcoming financial year in March with many households opting to pay their bill by monthly direct debit.

The average band D council tax bill in Scotland in 2024-25 is £1,421, compared to £2,171 in England and £2,024 in Wales (see [Council Tax Rates: Comparing Scotland to other UK nations](#)).

Exemptions and reductions

Exempt dwellings

There are certain classes of dwellings which are exempt from council tax, as originally set-out in the [Council Tax \(Exempt Dwellings\) \(Scotland\) Order 1997](#) (subsequently amended in 2012 and 2018). Exempt dwellings include various types of unoccupied dwellings (e.g. a dwelling owned by someone who has recently passed away) and various occupied dwellings (such as halls of residences, dwellings occupied by young care leavers and armed forces accommodation).

Discounts, disregards and reductions

Council tax is payable on all other dwellings which are not considered exempt. However, there are various reductions and discounts available to certain types of premises and households. Citizens Advice Scotland includes a list of people who are disregarded for Council Tax purposes: [Council Tax - Citizens Advice Scotland](#)

As set out in the *CPAG Council Tax Handbook* (hardcopy in SPICe), council tax bills are normally calculated on the assumption that two adults occupy a property. The Local Government Finance Act 1992, however, set out that in dwellings where there is only one person resident, a 25% discount applies. Where there is more than one adult, other discounts may be available, for example if the second adult is a student or is “severely mentally impaired”.

Council tax reduction scheme

Council Tax Reduction (CTR) is a means-tested scheme reducing how much low-income households must pay in council tax. The reduction can be any proportion of the liability, up to and including 100 per cent. Section 80 of the

1992 Local Government Act and [associated regulations](#) also include provision for disability reduction schemes.

Criticism of council tax

The Commission on Local Tax Reform concluded that some people in Scotland are paying more than they should, and some people are paying less than they should. Thus, there is an unfairness in the current system. A [recent report commissioned by the STUC](#) found three major problems with council tax and these are consistent with the issues identified by the Commission on Local Tax Reform 8 years earlier.

Firstly, the system is regressive, with households living in high-value houses paying considerably less as a proportion of their property wealth than households living in lower-value houses. Writing last year, the [Poverty and Inequality Commission concluded](#) that:

“Council Tax is a badly outdated and regressive tax requiring fundamental reform. Research we commissioned from the Resolution Foundation in 2019 highlighted that Council Tax remained almost as regressive as the Poll Tax it replaced.”

Secondly, there is substantial variation in council tax as a proportion of average house prices across Scotland. In Inverclyde, the average council tax bill for 2023-24 is £1,158 which is 0.87% of the average house price in mid-2023. By comparison, in the City of Edinburgh the average council tax bill of £1,484 is 0.44% of the average house price.

Thirdly, the bandings used for the Council Tax system in Scotland are based on house valuations in 1991. The Commission on Local Tax Reform previously found that:

“The present Council Tax, based on 1991 values, means people living in properties that have increased in value by more than the Scottish average since 1991 are likely to be paying less than they should, whilst others in properties whose value has not kept pace with the Scottish average are paying more than they should.”

Likewise, the [Institute for Fiscal Studies](#) recently wrote:

“The reason why using 1991 values is increasingly absurd is not that average property values have increased almost fivefold in the intervening 32 years. It is that the value of different properties in different parts of the country have changed by very different amounts in that period”

And:

“At some stage, continuing to base council tax on 1991 values will graduate from the absurd to the lunatic: does the Scottish Government

envisage its successors continuing to use 1991 values in 2091? And the longer reform is delayed, the harder it will likely be.”

They point out that the Welsh Government has [committed to revaluation and more fundamental reform of council tax](#), despite [some political reaction](#) when a previous revaluation was undertaken in 2005.

As [of March 2024](#), the Scottish Government had no plan for a revaluation of domestic properties. The Commission on Local Tax Reform concluded that “history shows that replacing or reforming a tax is not easy”. There are always winners and losers with any taxation changes, and the losers are usually the most vocal.

The Community Charge (or “Poll Tax”)

The petitioner writes:

“In my opinion, the poll tax was a far better system. There were failings in how it was rolled out and most councils failed in their ability to collect from non-payers. If the system became a per capita payment I believe this would be far fairer.”

A poll tax is a tax on all adults, and the form of poll tax introduced in Scotland in 1989 meant that almost everyone had to pay something, including students, the unemployed and pensioners. The Conservative UK Government felt it was fair that almost all adults who used local services should help pay for them through local taxation.

However, from the start, non-payment posed major problems. During the first year of its introduction in Scotland (1989-90), summary warrants for non-payment were taken out against 1.4 million individuals in Scotland, and in many urban areas the non-collection rate stood at over 30%. Writing in 1999, Professor Allan McConnell stated:

“It is simply not possible to widen the tax base and draw millions of people into new liabilities, shift the base from the immovable (property) to the moveable (people)...without incurring major expense because of problems of registration, non-registration, updating registers, non-payment, non-collection, etc”.

Referring to the poll tax as “the most celebrated disaster in post-war British politics”, the [LSE Professor Tony Travers believes](#) that:

“The highly regressive nature of the tax, and the vocal public demonstrations that ensued, led to its downfall and eventual replacement with the Council Tax in 1993.”

Other alternatives to council tax

Local governments across the world have a range of tax raising powers, with Scotland, and the UK more generally, being fairly rare in relying so much on local property taxes. The OECD provides data on the types of local taxes levied by local governments across member countries. Almost all developed countries levy taxes on property – property taxes work well in a local context as it is near impossible to move property assets between different jurisdictions. However, most local governments across the OECD have “baskets” of local taxes which may be levied on incomes, goods and services, as well as property:

Table 4: Distribution of Local Taxes, some OECD Countries, 2019 (as % of total local tax)

	Income	Property	Goods and services	Other
Australia	0%	100%	0%	0%
Austria	72%	14%	7%	3%
Belgium	35%	57%	7%	0%
Canada	0%	97%	2%	1%
Czech Republic	0%	56%	44%	0%
Denmark	89%	11%	0%	0%
Estonia	0%	82%	18%	0%
Finland	92%	8%	0%	0%
France	7%	50%	35%	7%
Germany	80%	11%	9%	0%
Greece	0%	93%	7%	0%
Iceland	80%	17%	2%	0%
Ireland	0%	95%	0%	0%
Italy	19%	22%	31%	28%
Japan	51%	27%	21%	1%
Korea	20%	45%	26%	8%
Latvia	86%	12%	1%	0%
Lithuania	0%	84%	16%	0%
Luxembourg	94%	5%	1%	0%
Netherlands	0%	52%	48%	0%
New Zealand	0%	88%	12%	0%
Norway	87%	13%	1%	0%
Poland	66%	29%	4%	1%
Portugal	25%	48%	27%	0%
Slovak Republic	0%	64%	36%	0%
Slovenia	75%	18%	7%	0%
Spain	18%	44%	38%	0%
Sweden	98%	2%	0%	0%
Switzerland	80%	17%	1%	2%
United Kingdom	0%	100%	0%	0%
United States	6%	72%	23%	0%

Source: [OECD Statistics](#) Global Revenue Statistics Database

The 2015 Commission on Local Tax Reform looked at the feasibility of various alternatives to council tax, including local income taxes and land value taxes. The final report did not recommend any one option but set out the pros and cons of each. It did conclude that “any reform of local tax has to include recurrent tax on domestic property, but that any such system needs to be more progressive than the current Council Tax system.”

Citizens’ assembly on local government funding

The Scottish Government’s [2021 Programme for Government](#) commits the Government to:

“...reforming Council Tax to make it fairer, working with the Scottish Green Party and COSLA to oversee the development of effective deliberative engagement on sources of local government funding, including Council Tax, that will culminate in a Citizens’ Assembly”.

The [Joint Working Group on Sources of Local Government Funding and Council Tax Reform](#) was set up to consider longer-term reform of local taxation and is currently looking at various deliberative engagement options. Although linked to the recently ended Bute House Agreement, the joint working group will likely continue its work. At the moment there is very little in the way of timing information or details of progress on the SG website.

Greig Liddell
Senior Researcher
16 May 2024

The purpose of this briefing is to provide a brief overview of issues raised by the petition. SPICe research specialists are not able to discuss the content of petition briefings with petitioners or other members of the public. However, if you have any comments on any petition briefing you can email us at spice@parliament.scot

Every effort is made to ensure that the information contained in petition briefings is correct at the time of publication. Readers should be aware however that these briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

Published by the Scottish Parliament Information Centre (SPICe), an office of the Scottish Parliamentary Corporate Body, The Scottish Parliament, Edinburgh, EH99 1SP