

A Fairer Council Tax

Response by the Chartered Institute of Taxation and its Low Incomes Tax Reform Group

1 Executive Summary

- 1.1 The Welsh government are consulting on substantial reforms to council tax in Wales. Council tax bands in Wales are based on property values as at April 2003, 19 years ago. The consultation proposes a council tax revaluation of all 1.5 million properties in Wales and more frequent valuations in the future. It considers adding more bands to the top and bottom ends of the scale, potential improvements to the framework of discounts, disregarded persons, exemptions and premiums, and improvements to the Council Tax Reduction Scheme which provides support to low-income households.
- 1.2 We welcome the certainty provided by the roadmap for the timetable for reform and the issue of the phase 2 consultation in Summer 2023 prior to implementation. A good communications strategy will be required to ensure that taxpayers are aware of the changes particularly to council tax reductions.
- 1.3 We agree that a tax system that does not reflect current property values and treats (or appears to treat) taxpayers unequally risks being undermined. In the longer-term this could place Wales's tax revenues at risk if people are less willing to pay taxes they consider unfair, and hamper wider policy initiatives.
- 1.4 We also agree that, in conjunction with revaluation, adding more bands covering the entire property value scale and re-evaluating the bands to align them more closely to property values would help make the system more progressive although its effectiveness will depend upon the distribution of housing wealth in Wales. There is a trade-off in adding more bands to enhance progressivity and the further administrative complexity this entails.
- 1.5 Revaluation and reform will focus public attention on council tax and transitional measures to ease the effect of transition and phasing in reform will help to gain public support and acceptance. The approach to transition needs to take account of the complexity of taxpayers' lives in low-income or low-wealth households in order to achieve equity in the system and maintain public support. Again effective communication will be key.

- 1.6 There is a case for considering the merits and disadvantages of a targeted council tax deferral scheme for owner-occupiers to address hardship for those who are property-rich, income poor where other measures do not provide enough relief.
- 1.7 Council tax tends to be generally unpopular in part because it is a 'dry' tax charge, that is, it is levied when no monies are generated with which to meet the liability. The consultation recognises there is little awareness of what council tax pays for and how ratepayers benefit with inevitable adverse consequences for how it is perceived. It is important to raise awareness that council tax only meets a portion of this spending (and make it clear where the other funding comes from).
- 1.8 In terms of potential improvements to the framework of discounts, disregarded persons, exemptions and premiums, the existing system is very complex. This makes it difficult for people to understand and therefore access relevant support. It also makes it difficult to write guidance and for staff to administer. It is therefore a good opportunity to relook at the whole council tax system so that people who are entitled to pay lower council tax do not have to subsequently claim support.

2 Introduction

- 2.1 The Welsh government are consulting on reforms to council tax in Wales in a Phase 1 consultation. This consultation was preceded by a programme of published research between 2017 -2021¹ looking at whether local taxes should be based on property, land, incomes, or a combination. The consultation notes the Welsh government's conclusion that property occupation, while not perfect, is a good broad indicator of people's wealth and council tax already has important elements that take account of income, such as the single adult discount and support for low-income households through the council tax reduction. Therefore, for now, the Welsh government consider council tax strikes the right balance, noting also that council tax is well understood, has low administrative costs and low levels of fraud. Alternative approaches to council tax such as a local land value tax or an unbanded system will continue to be explored although these are not the subject of this consultation.
- 2.2 Council tax bands in Wales are based on property values at April 2003, 19 years ago. (In England and Scotland council tax is based on values at April 1991, 31 years ago.)
- 2.3 Individual local authorities in Wales (of which there are 22) set the level of council tax in their area by allocating a rate for Band D properties (properties valued at between £91,001 to £123,000). The rates for other bands (the lowest band is Band A for properties up to £44,000 and the highest band, Band I for properties above £424,000) are set as ratios of the Band D rate. Those households in the lowest of the 9 bands, Band A, pay $\frac{2}{3}$ of the band D rate, while those in the top band (Band I) pay $2\frac{1}{3}$ of the Band D rate.
- 2.4 We welcome this Phase 1 consultation on this important reform programme for Wales. Consulting at Phase 1 of the programme will help to avoid unintended consequences for all stakeholders, including council tax payers, those in receipt of council tax support, local authorities and the Welsh government. It aligns with the Welsh government's tax policy framework (see 3.6 below) to develop tax policy through collaboration and involvement.

¹ <https://gov.wales/reforming-local-government-finance-wales-summary-findings>

2.5 Our response considers aspects of the following proposed reforms (responding to questions 1, 2, 3, 5, 6, 12 and 13 only)

- A council tax revaluation as at 1 April 2023 of all 1.5 million domestic properties in Wales and implementing an updated property list from 1 April 2025. The stated purpose is to redistribute the tax burden; the amount of council tax raised overall will not increase.
- Adding more council tax bands to make the system more progressive
- More frequent revaluations, at least every 5 years.
- Potential improvements to the complex framework of discounts, disregarded persons, exemptions and premiums.

2.6 The Welsh government's tax policy framework² confirms that Welsh taxes should:

- Raise revenue to fund public services as fairly as possible
- Deliver Welsh Government policy objectives, in particular supporting jobs and growth
- Be clear, stable and simple
- Be developed through collaboration and involvement
- Contribute directly to the Well Being of Future Generations Act goal of creating a more equal Wales.

2.7 Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

2.8 LITRG's seven principles for the tax system, set out in its paper 'A better deal for the low-income taxpayer',³ are that it should be:

1. Clear and up to date
2. Simple
3. Equitable
4. Just
5. Accessible and responsive
6. Joined up
7. Inclusive

3 Question 1. The council tax bands are currently based on property values from 1 April 2003, almost twenty years ago. Do you agree there should be a council tax revaluation in 2025, with property values based on 1

² <https://gov.wales/sites/default/files/publications/2018-10/tax-policy-framework.pdf>

³ <https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer>

April 2023, to maintain the credibility of the system and distribute the tax burden more fairly? The purpose would not be to raise additional revenue through this exercise.

3.1 The OECD's 2022 report 'Housing Taxation in OECD Countries'⁴ concludes that regularly updating property values is key to the efficiency, equity and revenue potential of recurrent taxes on immovable property because outdated property values may:

- create an incentive for homeowners to stay in undervalued homes when the home may no longer be suitable for their needs; this can be a risk because changes in bands when improvements are made are only applied when there is a transaction.
- create inequities because households with properties of the same value now can pay different amounts of tax because they had different values historically;
- reduce revenue indirectly because out of date bands make it harder to raise rates;
- create big upwards and downwards jumps in tax liabilities when a long-delayed valuation takes place.

The risks identified in the OECD report and in the Institute of Fiscal Studies report⁵ referenced in the consultation would potentially compromise the Welsh government tax policy framework principle of raising revenue fairly.

We agree that a tax system that does not reflect current property values and treats (or appears to treat) taxpayers unequally risks being undermined. In the longer-term this could place Wales's tax revenues at risk if people are less willing to pay taxes they consider unfair, and hamper wider policy initiatives. We note, for example, the Welsh government recently introduced a £150 council tax rebate in Wales as part of its response to rising energy bills. It is available to all households in properties in council tax bands A to D and to all households that receive support from the Council Tax Reduction Scheme (CTRS) in all council tax bands.⁶ If the council tax system is based on outdated property values and bands, there is a risk that these measures are not appropriately targeted, exacerbate existing inequities and are therefore inconsistent with the Welsh government's tax policy framework.

3.2 We welcome the certainty provided by the roadmap for the timetable for reform and the issue of the phase 2 consultation in Summer 2023 prior to implementation. A good communications strategy will be required to ensure that taxpayers are aware of the changes particularly to council tax reductions. Work will be needed to ensure that eligible households are aware of and take the necessary steps to obtain the reliefs, or to ensure that local authorities are able to identify those households that might be eligible for the reliefs.

4 Question 2. Do you agree the Welsh Government should consider adding more council tax bands (for example at the top and bottom ends of the scale) and refit the bands to help make the system more progressive?

⁴ <https://www.oecd.org/ctp/housing-taxation-in-oecd-countries-03dfe007-en.htm>

⁵ <https://ifs.org.uk/uploads/R169-Revaluation-and-reform-of-council-tax-in-Wales-2.pdf> (April 2020)

⁶ <https://gov.wales/written-statement-welsh-government-fuel-support-scheme-202223#:~:text=Eligible%20households%20can%20claim%20a,used%20towards%20paying%20fuel%20bills.>

- 4.1 Council tax may be income-regressive⁷ particularly in so far as it affects persons on low incomes who are not entitled to a council tax reduction because of some level of savings. It is not wealth-progressive⁸ in that its progressiveness is capped at the highest band (band I above £424,000) and within each band higher value properties pay the same tax as those at the lower end of the band. This effect is exacerbated by the 'slab' rate structure, that is if a property value is £1 higher than a band cut-off, the higher band % rate applies. If it is £1 below the band cut-off the lower band % applies.

We agree that, in conjunction with revaluation, adding more bands covering the entire property value scale and re-evaluating the bands to align them more closely to property values would help make the system more progressive although its effectiveness will depend upon the distribution of housing wealth in Wales. These measures though will not address one of the weaknesses of council tax, that is, the current inability to cope with the land-rich, income poor occupant (see further comments below at 6.2).

Adding more bands would not address the regressivity within the bands unless progressive rates of tax are applied within the bands and a slice system is adopted such that council tax is charged at different rates on the portion of the value falling within each rate band. There is a trade-off in adding more bands to enhance progressivity and the further administrative complexity this entails.

An unbanded system or a system of land value tax combined with a less regressive rate structure or a rate structure proportional to value could increase progressivity however we recognise consideration of the pros and cons of an unbanded system and a local land value tax is part of the Welsh government's longer term evaluation.

5 Question 3. The Welsh Government is committed to considering transitional arrangements if needed to smooth the effects of reforms. What factors should we take into account when designing these arrangements?

- 5.1 We agree with the IFS that there is trade-off between the potential benefits of phasing in big uplifts in tax bills against the complexity of design, implementation and potentially revenue costs of any transitional arrangement. We note the intention is that the amount of council tax raised overall will not increase, however it is unclear what this means about who meets the transition costs (whether the 'winners' fund the 'losers' like the self-funding business rates transitional scheme in England or the Welsh Government funds the phasing-in costs). In principle, more frequent revaluations (post 2025) and re-evaluated banding should reduce the need for an extensive transitional scheme in the future because large uplifts in value are less likely outside unanticipated and unusual events. However, the 2025 revaluation will take place after a significant gap and therefore transitional measures may be needed. The nature of those measures will depend on the extent and type of households affected and whether the transitional scheme is a one-off or will be a permanent feature of revaluations. We think this can only be determined once the early results of the effects of the 2025 revaluation are modelled.
- 5.2 Revaluation and reform will focus public attention on council tax and transitional measures to ease the effect of transition and phasing in reform will help to gain public support and acceptance. The approach to transition needs to take account of the complexity of taxpayers' lives in low-income or low-wealth households in order

⁷ A regressive tax is a tax where the tax liability is a larger share of income for low-income households than for higher income households.

⁸ A progressive tax would take a higher percentage of tax revenue from households with higher value properties than from those households with lower value properties.

to achieve equity in the system and maintain public support. Factors which could be considered as part of this include household income levels as a percentage of the new council tax bill and whether there is any targeted help from national state benefits such as Universal Credit. Any help with the transition must be publicised with clear appropriate guidance to help people get the support to which they are entitled.

- 5.3 There is a case for considering the merits and disadvantages of a targeted council tax deferral scheme to address hardship for those who are property-rich, income poor where other measures do not provide enough relief. However, a deferral scheme may only be appropriate for owner-occupied properties, it is not clear that this would work for tenants who are liable for council tax as part of their letting agreement.
- 5.4 We note that council tax tends to be generally unpopular in part because it is a 'dry' tax charge, that is, it is levied when no monies are generated with which to meet the liability, and in part because of its visibility; it is administered by regular demands for payment in contrast to less obtrusive income or national insurance taxes. As part of the wider reform programme there may be alternative means of collection for council tax that might be considered to reduce compliance costs and the impact of collection for the individual, such as the approach in Ireland of providing an option to have local property tax withheld from pay or pensions or to be withheld by the mortgage provider as in the US. We recognise that these options may involve complexities of their own.
- 5.5 The consultation recognises there is little awareness of what council tax pays for and how ratepayers benefit with inevitable adverse consequences for how it is perceived. Council tax bills include a breakdown of how council tax is spent. In addition, the consultation notes the important point that council tax only actually constitutes about one fifth of council funding. Many people erroneously believe that council tax easily covers all of council spending (and bills are higher than they need to be as a result). Therefore, in tandem with raising awareness of what council tax pays for, it is important to raise awareness that council tax only meets a portion of this spending (and make it clear where the other funding comes from). So while the pie chart in Figure 1 in the consultation document is useful, it needs to be accompanied by another pie chart showing how a council's funding is made up.

6 Question 5. Do you agree there should be frequent council tax revaluations at least every five years in the future, to ensure the tax burden is shared fairly amongst taxpayers on a regular basis?]

- 6.1 We agree there should be a credible (statutory ?) commitment to more frequent revaluations for the reasons noted above. For this commitment to work there must be appropriate resources, including staff with the relevant expertise, to carry out revaluations of over 1.5 million properties in the proposed timescales and to deal with any appeals/challenges. Infrequent and unanticipated valuations are difficult to implement because they may require administratively burdensome transitional relief for taxpayers moving between bands and prompt appeals. Despite the extra administrative cost and the fact that a revaluation is not designed to raise more tax, it will assist taxpayers in perceiving that they are being treated fairly. Having more regular revaluations should assist in making the council tax system more progressive as well as being an opportunity to raise awareness of how council tax works at regular intervals⁹. The OECD Report notes that several countries without provision for regular revaluations index values instead. However this approach does not offer a complete solution because it fails to capture varying price growth across different regions or types of properties. An indexing system could be considered to uprate in between regular valuations to smooth the effect of revaluations. We note the risks identified in the consultation of frequent revaluations are the impact

⁹ <https://gov.wales/sites/default/files/consultations/2022-07/consultation-wg45022.pdf> Page 6- 50% of survey respondents reported they knew nothing or very little at about council tax.

on the appeals process (having to close the lists at a certain point) and the effect of extraneous events such as recession and pandemic causing fluctuations in market values.

- 6.2 As noted in our paper, ‘A better deal for the low income taxpayer’¹⁰, in order to ensure that a tax system is equitable, it is important that fixed amounts in legislation are reviewed regularly and updated annually with inflation. In similar vein, we think it is important that valuations for council tax are carried out on a regular basis, to ensure that the tax is equitable on an ongoing basis.

7 Question 6. When properties are significantly improved, properties are only reviewed and potentially rebanded in certain circumstances, for example when the property is sold to a new owner. The Welsh Government is seeking views on whether this policy should change in the future.

- 7.1 As the condoc acknowledges, more frequent rolling revaluations would mean property improvements were taken into account on revaluation. Capturing improvements outside a revaluation or a transaction would in principle bring that value into the council tax base more quickly but with associated increased administrative cost and the potential to disincentivise improvements. The amount of that increased value may vary between local authorities depending upon whether it is a characteristic of a particular area that dwellings have undergone significant improvements without changing hands. In areas where properties change hands frequently the improvement value would be recognised for council tax when the transaction takes place.

We think more frequent rolling valuations provide the better approach to balance administrative convenience, economic efficiency and fairness. It could also increase general awareness about how council tax works within Wales. More frequent revaluations (though we favour them on balance for the reasons given) will potentially increase the deterrent effect of the tax on making improvements. It may be worth looking at whether ‘desirable’ improvements could be treated differently for example exempting improvements that meet a wider policy objective such as say, heat pumps or insulation. We recognise differentiating in this way would add complexity and extra valuation issues.

8 Question 9. What is your view on the existing discounts, disregarded persons, exemptions or premiums? for example, do you think the current rules are appropriate and fit for purpose? Are there particular aspects of the rules which you think need to change or new rules created?

- 8.1 The administration of these rules is largely outside our members’ experience and expertise. However we have some wider observations. The existing system of discounts, disregarded persons and exemptions is very complex. This makes it difficult for people to understand and therefore access relevant support. It also makes it difficult to write guidance and for staff to administer. The interaction between the different discounts and exemptions is also complex. With currently 48% of households in Wales receiving some form of council tax support, this could be a good opportunity to relook at the whole council tax system so that people who are entitled to pay lower council tax do not have to subsequently claim support.
- 8.2 One example of this complexity is the existing reduction for people with disabilities. We consider that a relief for people with disabilities should continue to be recognised, as the consultation indicates.

¹⁰ <https://www.litr.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer>

The consultation notes the rationale for the existing reduction is to recognise that some people with disabilities need to live in adapted homes and aims to compensate for the loss of amenity in adapting a room for example for a disabled person's needs. However, the regulations and case law underpinning the application of the reduction do not necessarily reflect current circumstances, for example we understand that billing authorities may not regard purpose-built disabled housing as fulfilling the criteria because, being purpose built, there is no loss of amenity. We understand that the current criteria are difficult to apply in practice, for example in the case of a room adapted for use as a sensory room, used intermittently, should the adaptation qualify due to loss of amenity?

One of the conditions under the regulations is for sufficient floor space to permit the use of a wheelchair. At the time the regulations were framed it was likely that doors and entrances would need to be widened to facilitate a wheelchair therefore fulfilling the loss of amenity criteria. However, with advances in wheelchair design meaning some wheelchairs are small and more flexible this test appears outdated. We think the tests generally and the way the reduction is applied regressively (a band reduction provides more relief for houses in higher bands) are in need of review and reform to better reflect the needs of disabled persons and the policy intent.

As part of any reform, it will be necessary to consider the Equality Act 2010 and how it interacts with the local taxation. Any rules should be applied uniformly across all 22 local authorities and if there is a discretionary approach then it should be supported through monitoring and clear guidance.

- 8.3 In order to improve the take-up of reliefs, there needs to be greater targeted promotion of the entitlement to any discounts, exemptions and reductions from council tax, especially when there are life changing events. It may be helpful in order to increase the uptake, to present such council tax support as an entitlement and as a means of producing a fair liability based on household circumstances.

9 Question 12. Should the Welsh Government be able to amend titles and descriptions of any discount, disregarded person or exemption? Do you think any of the current titles should be changed? What would you consider to be a more appropriate term to replace 'severely mentally impaired'?

- 9.1 Although this question is largely outside our expertise, we would recommend that any changes to terms used should take into account where the same terminology is used for other benefits if the definition is the same. For example, the term 'severely mentally impaired' is used for the Disabled Living Allowance (DLA)¹¹ and for council tax reductions in other parts of the UK. Consideration should be given as to whether any changes could cause confusion for recipients who also claim DLA or subsequently move to a different part of the UK.

10 Question 13 The Welsh Government expects there to be a continued need to support low-income households in paying their council tax bills. Do you have any views about the design of the current scheme, including whether it should continue to be means-tested? Do you have any general views about the scheme?

- 10.1 Please see our comments at Question 9 above.

¹¹ See Regulation 12- The Social Security (Disability Living Allowance) Regulations 1991: <https://www.legislation.gov.uk/uksi/1991/2890/regulation/12/made>

11 Acknowledgement of submission

- 11.1 We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation and The Low Incomes Tax Reform Group are included in the List of Respondents when any outcome of the consultation is published.

12 About us

CIOT

- 12.1 The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.
- 12.2 The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 12.3 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 12.4 Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

LITRG

- 12.5 LITRG is an initiative of the CIOT to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 12.6 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

The Chartered Institute of Taxation

The Low Incomes Tax Reform Group

30 September 2022