

Reforming the Council Tax and LBTT: overcoming trade-offs and challenges

Kenneth Gibb

UK Collaborative Centre for Housing Evidence
University of Glasgow

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Sustainable Housing Policy in Scotland: Reforming Devolved Property Taxation

Kenneth Gibb* and Chris Leishman**

*University of Glasgow/UK Collaborative Centre for Housing Evidence

**University of South Australia/UK Collaborative Centre for Housing Evidence

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Agenda

The presentation is concerned with housing tax reform and specifically the reform of council tax and land buildings transactions tax.

The presentation sets out a diagnosis of the two taxes, sets them in historical and institutional context and considers the case for reform.

This looks at short run immediate reforms as well as more radical proposals. In so doing, the presentation looks at the arguments change, drawing on recent evidence and research that makes the housing as well as broader public policy case for reform.

Overview

- A potted history of local property taxes in the UK
- The current reform debate: modest, necessary or radical reform
- Why is it so hard to reform property taxes in the UK?
- Is council tax a local services tax or a housing tax – how would you decide?
- Thinking about evaluative criteria when there are multiple goals and evident trade-offs
- A way forward and postscript?

Local Property Taxes in the UK

- Domestic rates
- Towards the poll tax
- Council tax political 'fix' and then stasis
- No further general revaluation in England or Scotland since 1991
- Scottish inquiries – 2006 and 2015
- Reforms in Wales and Northern Ireland
- Why not reform?
- Housing to 2040
- There is a growing academic/think tank body of work arguing for radical reform

Table 1 The Council Tax in Scotland (current arrangements)

Tax band	Price range (1991 values)	Weight relative to band D= 100	Average Scottish Charge 2023-24
A	<£27,000	0.67	£944
B	£27,001-35,000	0.78	£1,102
C	£35,001-45,000	0.89	£1,259
D	£45,001-58,000	1.00	£1,417
E	£58,001-80,000	1.31	£1,861
F	£80,001-106,000	1.63	£2,302
G	£106,001-212,000	1.96	£2,774
H	>£212,000	2.45	£3,470

Reform

- **Modest or Necessary**

1. general revaluation, periodically repeated
2. Tinker with bands, weights and proportions within bands
3. Adjust help to low income and asset rich income poor households
4. Some form of resources equalization to compensate for shifting property values across space
5. Second homes

- **More fundamental reform**

1. Variations of a proportionate property tax
2. Include revenue from stamp duty or LBTT in Scotland
3. Split rate taxes
4. Deferred payments and rebate schemes
5. Land value tax?
6. Hybrids eg Leunig proposal

A Digression on Stamp Duty/LBTT

- Ancient tax
- Grown in size & impact (and revenue)
- ‘Slab’ then a ‘slice’ tax
- Devolution & tax competition
- Economic critique – taxing mobility
- Additional Dwelling Supplement now 8% in Scotland

Price band	LBTT Tax rate
<£145,000	nil
£145,001-250,000	2%
£250,001-£325,000	5%
£325,001-£750,000	10%
>£750,000	12%

Table 2 Structure of LBTT, Scotland, 2023-24

Notes

- First time buyer main residence relief or nil rate up to £175,000
- Additional Dwelling Supplement adds 8% to liable LBTT for second or additional homes

Barriers and Tensions

- *There be dragons.* The poll tax/rates institutional memory
- ‘Voters will not wear it’
- Winners (quiet) and losers (loud)
- Revaluation likes the long grass even when it is a statutory duty – and not a UK-specific problem
- Need to have a plan reform the system or not do anything (the rubiks’ cube problem)
- Fundamentally – is it a tax on local services or a clever way to tax housing wealth and even create an instrument that can stabilise the housing market?
- Combine council tax and stamp duty taxes in one
- To decide which and how to reform – you need consensus to build around a series of (ideally, weighted) evaluative criteria that are widely discussed and understood

Plausible Criteria (Gibb & Leishman, 2025)

1. Technical feasibility
2. Different fairness perspectives
3. Local democratic accountability
4. Minimising adverse and promoting positive systemic impacts on the wider housing system, economy, local government etc
5. Fiscal and wider public policy goals. Scottish focus.

Table 3 A Well-Functioning Housing System

Homes	The housing market	The housing system
People live in homes of high minimum standards and provide stable adaptable, secure environments	We build enough homes to meet existing need and newly arising needs and demands, including sufficient accessible homes	The different parts of the housing system work together rather than against each other.
Homes provide thermal warmth and energy efficiency	Sufficient homes are in places where people want to live, and communities have an influence on design and development	Homelessness is rare, brief and non-recurring
Homes are affordable in terms of cost to income and residual income	There is sufficient good quality social housing which is a platform for lower income households to build their lives	House prices and rent rise over time in a more stable or orderly fashion, close to or at the rate of general inflation
Genuinely affordable choices for housing exist throughout the life course	There is a thriving high-quality PRS which balances security and affordability with decent rates of return for landlords	Housing contributes to and does not inhibit economic growth or performance and housing policy is more integrated into levelling-up and spatial balance strategies, facilitating labour mobility
Home ownership should be possible more widely but is not the only measure of housing success or quality	Mortgage regulation is such that the home ownership sector is more accessible but still stable and financially sustainable	Housing complements other vital social systems such as social care, health care and social security
Housing is regardless of tenure well designed, secure and affordable and residents feel they can exercise meaningful degrees of control	Temporary accommodation is available to those who need it for short periods, and it does not disempower them	Housing system structures and processes do not amplify social division e.g. discrimination, exclusion and wealth inequalities

Table 4 Slack and Bird Challenges and Proposals around Effective Property Tax Reform

- Source: derived from Slack, E and Byrd, R (2015) Table 2

Issues & Problems	Promising Approaches	Less Promising Approaches
Salience: property tax is more noticeable than other taxes	Conjoin tax reform with improvements in local services; withhold tax at source or other payment options; phase-in changes	Set revaluation limits; cap or freeze the property tax
Liquidity Constraints: imperfect association between taxpayer incomes and property taxes, especially for seniors	Offer tax deferrals for seniors; provide more payment options; phase-in changes	Set assessment limits; cap or freeze the property tax
Perceived Regressivity: taxes higher as a percent of income for low-income taxpayers	Offer property tax credits; offer tax deferrals; bundle with other tax reforms; package with expenditure changes; provide low income housing exemptions	Implement banding
Volatility: potentially large swings in taxes for some taxpayers (not an issue with Council Tax but potentially with other property taxes)	Conduct annual revaluations; index the tax base; provide taxpayer education; communicate in an understandable form; phase-in changes	Set assessment limits; cap or freeze the property tax
Presumptive Tax: tax base is inherently arbitrary	Provide taxpayer education; conduct public consultations; make revaluation appeal process accessible; phase-in changes	Allow self-assessment for revaluation; implement classified property tax rates; set progressive tax rates; set revaluation limits; cap or freeze the property tax
Inelasticity (a problem for local governments, not taxpayers): taxes do not increase with growth	Conduct annual revaluations; index the tax base; phase-in changes	

A Way Forward?

- We can't set the local democratic accountability criterion weight at zero
- Several of the new range of tax proposals are for owners of property only (owner occupiers and all landlords)
- What should we do with tenants? Do they not consume local services and vote?
- The issues of capitalization: revaluation and owner-taxes passed on to tenants
- Implication – some form of PPT or split tax that taxes asset or land values of all owners, perhaps including the transaction tax (stamp duty or LBTT) but also taxes tenants on their housing services consumption – this resonates with older IFS policy ideas (and domestic rates!)

Postscript

- Welsh plans for revaluation (and have already increased bands)
- Scottish limited parliamentary committee inquiry on revaluation
- I am on study leave and writing a book about housing tax reform focused around local and transactions taxes. Systems and multidisciplinary approach (still working it all out)
- Three thoughts on the elephant in the room:
 1. Property tax reform does happen successfully elsewhere e.g. NI
 2. Enid Slack's international tendencies of successful property tax reform
 3. Citizen panel and assemblies – some provisional positive evidence from Glasgow