

How to do council tax reform

OVERVIEW

Council tax requires major reform. It is archaic, badly designed, regressive and inimical to the goals of a better-functioning housing system and greater decentralisation of power to local government. Interest in reform has grown in recent years, with several studies coalescing around the concept of a proportional property tax, while at the same time Wales and Scotland are consulting on council tax revaluation. No reasonable property tax can be based on such outdated values (1991 for England and Scotland; 2003 for Wales). Revaluation is an opportunity to go much further – one that should be grasped.

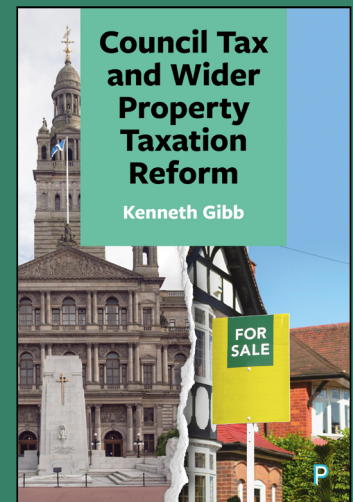
- Research shows that political resistance to reform can be softened by the new arguments for property taxation and by deliberative democracy models like citizens' panels, which indicate a willingness to contemplate such reform.
- International evidence (Slack and Bird, 2015) is clear about the value of well-designed property taxes that are regularly revalued and do not use banding systems.
- Northern Ireland reforms in the 2000s show that a capital value tax can be politically acceptable and work well thereafter, including through the use of mitigation to protect losers from tax change.

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WHY THIS IS IMPORTANT AND CHALLENGING

This research is important now because local government requires more effective taxes and fiscal decentralisation. The housing system would also benefit from better-designed taxes that overcome 1991 valuations and regressive features that mean that people pay a larger share of property value in low-value areas than in high-value locations. There is considerable unwillingness to reform from governments across the UK (Wales, perhaps, not so much). This is in part due to long memories about the poll tax, but it also reflects deep-seated electoral worries and the complete failure to consider the longer-term consequences of inertia for local government, for the housing system and for good fiscal practice.

Recent research (e.g. Cheshire and Hilber, 2021; Nanda, 2021; Muellbauer, 2023; Leunig, 2024; Macfarlane et al., 2026) consistently suggests that tax reform based on a regularly revalued capital value tax – or in Muellbauer's case, a land and structures tax – potentially combined with a reformed stamp duty payable by all property owners, would be more efficient, fairer and more robust as a source of revenue. Any new tax needs to be persuadable to voters and taxpayers; there is much evidence from these authors that it is so. Moreover, citizens' panel research in Glasgow indicates that these approaches can be positively received by citizens.



Council Tax and Wider Property Taxation Reform by Kenneth Gibb is published by Policy Press, April 2026.

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KEY FINDINGS

- Wide recognition of the critical failings of council tax – for example, institutional unwillingness to regularly revalue unfair tax with respect to income, and perversity in being more onerous in lower-value areas than in higher-value ones.
- Growing body of research and think-tank support for different forms of a related new approach: a proportionate property tax where councils set a percentage rate on the individual revalued capital value of a property. This could be combined with a nationally set tax on owners, including private landlords, to raise the revenue required by abolishing stamp duty and its devolved variants.
- The political opposition to tax reform can be lessened by: (1) undertaking a concerted effort to educate and communicate the goals of reform and the harms of extending the status quo; (2) adopting citizens' assembly-type models of deliberative democracy to debate and recommend the necessity of local tax reform; and (3) introducing tax reform with proper mitigation measures: deferral schemes for the cash-poor/asset-rich, reinstating a UK national low-income rebate scheme and offering a transitional protection scheme to help losers from the tax changeover.

POLICY IMPLICATIONS

Local tax reform is a big commitment but would complement local government reorganisation that is currently underway in England, as it would also support a greater fiscal decentralisation of power by increasing the proportion of funds over time for which councils are responsible. The UK and Scottish governments are proposing a new mansion tax, but this would only revalue the most expensive property in the country, rather than revalue all homes. This is a wasted opportunity for a tax that will yield little revenue. It is a clear opportunity to go the extra step and complete a general revaluation. Policy makers should look to Northern Ireland and Wales, where meaningful reform has been successfully undertaken (and is planned in Wales). Even in a British context, it can be done.

Finally, while it is the case that there is consensus clustering around the proportionate property tax, it must overcome one remaining political challenge. British local taxation has always been based on household taxation rather than ownership taxation. The new proposals are all taxes on property ownership and would exempt tenants. This is a political non-starter, and an alternative would be to retain some form of housing consumption tax, like the old domestic rates for tenants, but this would be buttressed by a national rebate system for those on the lowest incomes.

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