

Tax briefing note

Council tax

June 2025

What is it?

Council tax is charged by local authorities to the occupiers of residential property.

Council tax was introduced in Great Britain in 1993 to replace the community charge (commonly known as the 'poll tax'), which replaced domestic rates in 1990 in England and Wales (and in 1989 in Scotland). Rates date from at least 1601. Domestic rates have not been replaced in Northern Ireland. Council tax is applied to residential properties in eight bands based on 1991 property valuations (nine bands on 2003 values in Wales). Local authorities set local rates but the ratios and valuation bands are set centrally (by the Scottish and Welsh administrations outside England).

Council tax does not apply if the occupants are all full-time students, under 18s, foreign diplomats or people who are severely mentally impaired. Nor if the residence is owned by a registered charity and last used for charitable purposes. A 25 per cent discount applies to residences with a single occupant while councils can apply additional charges to empty properties and second homes.

Property valuation band for council tax	Wales		Scotland		England	
	Band upper limit (£)	Ratio to band D (%)	Band upper limit (£)	Ratio to band D (%)	Band upper limit (£)	Ratio to band D (%)
A	44,000	67	27,000	67	40,000	67
B	65,000	78	35,000	78	52,000	78
C	91,000	89	45,000	89	68,000	89
D	123,000	100	58,000	100	88,000	100
E	162,000	122	80,000	131	120,000	122
F	223,000	144	106,000	163	160,000	144
G	324,000	167	212,000	196	320,000	167
H	424,000	200	212,001+	245	320,001+	200
I	424,001+	233	-	-	-	-

What's the problem with it?

Council tax discourages residential property improvements and construction.¹ To the extent that council tax mimics a consumption tax similar to VAT on other consumption goods, council tax is not especially a problem in this way any more than VAT is on other areas of consumption. But that doesn't mean it is not harmful, just that it is not especially harmful. It also falls on occupiers who may find bearing the burden of increases difficult to plan for if (like pensioners) they are on fixed incomes.

Council tax breaches three of the four principles of taxation identified by Adam Smith in 1776. It is inconvenient, because it does not coincide with a transfer of cash (unlike VAT or income tax). It is inequitable, because it is not proportionate to either the value of the property or the income of the taxpayer. And, to some extent, it is uncertain, because the level cannot easily be predicted in advance. While income tax rates and VAT have remained relatively stable over the past 20 years, council tax rates have varied markedly, especially at the local authority level rather than national averages, which mask the extent of rises experienced by those unfortunate enough to live in the worst local authority areas.

¹ Valuation Office Agency, *Council Tax band changes*, 22 January 2016, www.gov.uk/guidance/council-tax-band-changes (accessed 20 March 2025).

Most starkly, the system is plainly nonsensical. Properties are assessed in bands based on what they would have been worth over 30 years ago.

What should be done?

Councils should cut their rates, at least in real terms (after adjusting for inflation).