

Bangor Business School response to Senedd Local Government and Housing Committee Inquiry into Council Tax Reform

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This paper lays out our response to the proposals for Council Tax reforms set out in the Welsh Government's consultation document, [A Fairer Council Tax](#), published in July 2022.

Summary:

The Welsh Government's proposals represent a very modest set of reforms to the current Council Tax regime. As such, they fail to address the well-recognised faults of that regime to any significant degree.

The case for reforming Council Tax:

[Adam et al \(2020\)](#) conclude that 'Council Tax is out of date, regressive and distortionary'. We concur with this view. In particular, we note:

1. The highly regressive nature of Council Tax.
2. The opaque nature of tax rates, as a result of,
 - i. out of date property valuations,
 - ii. subjective valuation methods, and
 - iii. banding.
3. The complexity of discounts, reliefs, and exemptions.

The regressive nature of Council Tax:

The regressive nature of Council Tax is widely acknowledged and understood (see, for example [Ifan and Poole 2018](#)). The Consultation Document states clearly that the 'Welsh Government is committed to creating a fairer and more progressive council tax'. However, the current proposals are limited to increasing the number of bands and changing the tax rates for each band. Tax rates for the new bands are not discussed.

Of the options for reform considered by [Adam et al \(2020\)](#), a continuous proportional tax rate has the most significant impact in reducing the regressiveness of Council Tax. It is unclear, therefore, why the current proposals seek to retain banding.

We would encourage the consideration of a continuous and proportional tax rate allied with a tax-free allowance, in order to achieve a truly progressive property tax.

Property valuation:

The current proposals involve implementing taxes in April 2025 based on valuations from April 2023, with a commitment to carrying out subsequent revaluations at least once every five years. The

proposals, therefore, suggest introducing the new regime based on valuations that are already 2 years out of date.

It is unclear why any future commitment to revalue are any more credible than those that have been made in the past. Changing the methods of valuation, to make use of hedonic pricing models, could hardwire currency of valuation into the system. However, the proposals do not address issues around the nature of the valuation methodologies to be used.

Property valuation methodologies have evolved significantly since the previous valuations of 1993 and 2003. In our view, the subjective survey methods used in the previous valuations are outdated. Hedonic pricing models should be used to provide cheap, less subjective and more timely valuations. These models are widely used in both the banking industry (to continuously update mortgage loan-to-value measures for regulatory compliance) and in the property industry (e.g. [Zoopla](#)). They can ensure consistency and transparency in valuation.

Continuously updated property valuations would foster a fairer tax system, so that taxpayers are compensated more quickly for having paid higher taxes when property values are high and paying less tax when property values reduce during a downturn in the property market.

Hedonic pricing models are dependent on high quality data (property characteristics and transactions data). However, we believe that the engagement of taxpayers in checking and confirming such data has the potential to improve understanding of valuations and subsequent tax liabilities. We believe that such an approach would be consistent with the [Welsh Revenue Authority's "Cydweithio, Cadarnhau, Cywiro"](#) philosophy.

We repeat here our recommendation (see [ap Gwilym et al 2020](#)) that a cadastral database for Wales should be established under the control of a single agency.¹ This would bring together the land registration, mapping and valuation functions within a single entity, as has been successfully achieved in Northern Ireland. The database should take advantage of modern GIS techniques, as well as the valuation methodologies discussed above. This would likely have significant benefits beyond local taxation in areas such as planning and agriculture, by ensuring consistency and compatibility of data.

There seems to be an implicit assumption in the current proposals that valuations would be carried out by the VOA. It is unclear to us whether the services currently provided by the VOA represent value for money, or whether the VOA is best placed to develop a hedonic pricing model or cadastral database for Wales.

¹ A cadastre records information on public and private land ownership, rights and interests on the land, alongside information on the value of the land, the natural status of the land and the use of the land. It therefore has benefits beyond tax administration.

The main advantage of a cadastre is the information it provides to different users from one central source. It can play a central role in the public management and administration of land ownership relating to property and property issues e.g. identifying land use restrictions, planning applications, facilitating public access to local plans for citizens to engage and provide feedback, to guide infrastructure and construction projects, and the monitoring of land use. The disadvantage is the cost of the project of initially establishing a cadastre to provide these benefits.

Examples of effective cadastres include those in Denmark, Estonia and the state of Montana in the USA.

Communication with taxpayers

It is crucial that taxpayers are provided with a clear and understandable explanation of how their council tax liabilities and property values have been calculated. Calculations should include granular data, such as number of rooms held, garage, etc. This allows taxpayers with the opportunity to understand, question and challenge their tax obligations and liabilities.

It is important that taxpayers are aware (and reminded) of discounts, allowances etc. available. This information could be sent to taxpayers as an attachment to their council tax bill document, at a time when they are most likely to check and challenge their liability, whilst also rescuing the amount of documents sent to taxpayers (too many documentations sent to taxpayers could lead to complexity).

Consultation is needed with representatives of the financially worse off and vulnerable groups in society to understand how council tax reforms may affect them. Consultation should also include social welfare advisory organisations across Wales who regularly help people with their tax liabilities and debt. Small local voluntary organisations should be approached as well as the well-known established advisory organisations so that a range of different groups in society and voices are heard.

Discounts, reliefs, and exemptions:

The current proposals continue to rely on discounts, reliefs and exemptions. This is necessary because the proposals do not address the underlying regressiveness of Council Tax. In our view, a truly progressive council tax, as proposed above, would remove the need for the majority of these schemes.

Concerns around the impact of changes to property taxes on asset rich, income poor individuals represent a significant political obstacle to their implementation. Evidence is limited regarding the prevalence of such individuals, and as such appropriate transitional and/or deferral mechanisms are important in implementing such changes.

Transitional arrangements:

A sudden shift from April 2003 to April 2023 valuations may well create a significant increase in council tax liabilities for some taxpayers. Thus, allowances must be made available for the financially worse-off and vulnerable groups in society during the early implementation period of this proposed tax reform change.

Such allowances could include (a) tapering the new council tax liability during the early years of implementation for the less financially well-off and vulnerable groups in society; (b) implementing early modes of communication with taxpayers and explaining to them their potential council tax liabilities well in advance of the tax liability due date, allowing time for taxpayers to plan and budget; (c) providing tailored 'time to pay' schemes whereby taxpayers spread any additional tax over a period of time according to their own individual financial circumstances and needs.

Liability for property taxes:

Occupiers are currently liable for paying Council Tax. The current proposals are silent with regards to liability, suggesting that there would be no change.

There is overwhelming evidence (see, for example, [Hilber 2015](#)) that the economic incidence of property taxes falls on the property owner rather than the occupier. Changing the financial liability of property taxes to coincide with their economic incidence would significantly improve the transparency of the tax system. Shifting the financial liability from tenants to landlords would also mitigate against arguments in favour of widespread exemptions.

Communities:

The consultation document states that the Welsh Government envisions a tax that connects people with communities.

Our view is that there tends to be a lack of awareness amongst the public of what Council Tax payments fund and whether or not they are used efficiently and effectively.

Clear communication about how council tax is used and spent in the local community can aid and improve acceptance and compliance of a tax, especially when it increases a taxpayer's tax burden. Current Welsh council tax bills usually contain a breakdown of the proportion of the tax used to pay for certain local services e.g., police, refuse etc. However, a retrospective analysis using clear and simple images (e.g., graphs, photos etc.) of how the tax was spent during the previous year on community-related matters might be more meaningful and powerful.

This could also improve a sense of community whereby taxpayers are made aware of how their money has contributed (made a difference) to help improve their local community.

The current proposals do not discuss ways to increase the accountability of local authorities. The vast majority of funding for LAs will continue to come from WG and the vast majority of LA spending will be on statutory services rather than those which most people view as 'local services'. However, control over tax rates is key to LA accountability, and the consultation document is silent on this issue.

Conclusion:

The proposals set out in the Welsh Government's consultation document, A Fairer Council Tax, represent a very modest set of reforms to the current Council Tax regime.

Whilst updating the property valuations on which Council Tax is based is well overdue, the other proposals contained in the document are too modest to address the underlying weaknesses of the Council Tax system. This is tacitly accepted by the document in its commitment to "explore alternative approaches to the council tax for longer term consideration, such as a local land value tax or unbanded systems".

The innate regressiveness of a banded Council Tax is no longer defensible in our view. We do not see any justification in the document for failing to move to either a proportional system (as considered by Adam et al) or, preferably, a progressive system with a tax-free allowance.

Furthermore, the current proposals do not lay any foundations for future, longer-term, moves in the direction of progressivity or LVT. Our suggestions for modern valuation techniques couched in a comprehensive cadastral database would, in our view, lay these foundations.