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Revaluation and reform of council tax in Scotland: design considerations and potential impacts

People, Communities and Places

social research

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Preface

This report and the analysis underlying it was commissioned by the Scottish Government to inform engagement on potential council tax revaluation and reform options. The Scottish Government has also published a consultation, which can be accessed here.

The report makes use of data provided to the IFS via the Scottish Government, from Registers of Scotland, and the Scottish Assessors.

It also utilises data from the Understanding Society Survey, Understanding Society is an initiative funded by the Economic and Social Research Council (ESRC) and various Government Departments, with scientific leadership by the Institute for Social and Economic Research, University of Essex, and survey delivery by the National Centre for Social Research (NatCen) and Verian (formerly Kantar Public). The research data are distributed by the UK Data Service.

The analysis was undertaken and written up by Stuart Adam, David Phillips and Sam Ray-Chaudhuri of the Institute for Fiscal Studies (IFS). They would like to thank Scottish Government and the Convention of Scottish Local Authorities (COSLA) officials for comments on earlier drafts of this report. This report has been published as a Scottish Government report, and has been produced in accordance with Scottish Government publication guidelines.

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Glossary

Capitalisation	Capitalisation is the phenomenon whereby expected future payments associated with an asset are reflected in current asset prices: in the context of this report, the effect of expected future council tax liabilities on current property values. ‘Full capitalisation’ refers to the case where the discounted value of expected future council tax bills is reflected pound-for-pound in lower property values (see below for an explanation of discounting). ‘Partial capitalisation’ refers to the case where the discounted value of future council tax bills is reflected less than pound-for-pound in lower property values.
Data zone	Census-based geographical area covering a set of households containing approximately 500–1000 individuals.
Discount rate	The discount rate is a measure of how much less individuals collectively (through the market) value money received or paid in future, relative to money received or paid today. For example, an annual discount rate of 1% would mean that a given amount of money received or paid in one year would be valued 1% less than the same amount received or paid today. For example, a guaranteed £100 in a year’s time would be worth £99 today. Discount rates have a close relationship with interest rates: interest compensates individuals for the fact that a given cash amount in future is worth less than the same amount today.
Equivalised net income	Net income is the sum of a household’s income from various sources such as earnings, pensions, benefits and savings, less the taxes that it pays. Equivalisation involves adjusting household incomes to reflect the fact that larger households require more income to attain the same material living standards as smaller households.
Gross relative tax rate	The gross relative tax rate on a property is a measure of how the tax bill for a property compares to that levied on a Band D property in the same council area, prior to any discounts, premiums, exemptions or means-tested reductions. The gross relative tax rate for a Band D property is 1. Under the current system, and the pure revaluation reform system, the gross relative tax rate varies from 0.667 for a Band A property to 2.45 for a Band H property.

Gross council tax bill	The gross council tax bill is the council tax bill levied on a property before any discounts, premiums, exemptions or means-tested reductions.
Hedonic regression	A statistical technique used to estimate the relationship between property values and the property's location and characteristics (such as size, dwelling type, number of rooms, etc.). This report uses a log-log hedonic regression specification. This means that the statistical analysis is based on equations where property values and continuous variables (such as size in square metres) are measured in natural logarithms.
Intermediate zone	Census-based geographical area based on groups of neighbouring data zones (see above), covering a set of households containing approximately 2,500 to 6,000 individuals.
Low-income, middle-income and high-income	In this report, we use low-income to refer to households in the bottom 40% of the equivalised household income distribution. In terms of income quintiles (fifths), this corresponds to those in the first and second income quintiles. We use middle-income to refer to households in the third and fourth income quintiles. We use high-income to refer to households in the top income quintile (the top 20% of the income distribution).
Net council tax bill	The net council tax bill is the council tax bill levied on a property after any discounts, premiums, exemptions or means-tested reductions.
Progressive tax	A tax is progressive (as opposed to proportional or regressive) if the average tax rate rises with the tax base or with a measure of ability to pay. For example, an income tax is progressive with respect to income if individuals with higher incomes pay a larger share of their income in income tax. In the context of this report, a property tax such as council tax is progressive with respect to property value if the tax is a higher share of property value for higher-value properties; it is progressive with respect to income if it is a higher share of income for higher-income households.
Proportional tax	A tax is proportional (as opposed to progressive or regressive) if the average tax rate is constant as the tax base or a measure of ability-to-pay rises. For example, an income tax is proportional to income if individuals with higher incomes pay the same share of their income in income tax as individuals with lower incomes. In the context of this report, a property tax such as council tax is proportional to property value if the tax is the same

	percentage of property value for high- and low-value properties; it is proportional to income if it takes the same share of income from high- and low-income households.
Regressive tax	A tax is regressive (as opposed to progressive or proportional) if the average tax rate falls with the tax base or a measure of ability-to-pay. For example, an income tax is regressive with respect to income if individuals with higher incomes pay a smaller share of their income in income tax. In the context of this report, a property tax such as council tax is regressive with respect to property value if the tax is a lower share of property value for higher-value properties; it is regressive with respect to income if it is a lower share of income for higher-income households.

Contents

Executive summary

This report considers the design and impact of potential reforms to Scotland's system of council tax, a tax levied on the occupiers of residential property to help fund the provision of local services. Properties are currently placed in one of eight tax bands (A – H) based on their estimated value as of April 1991 – 34 years ago (Scottish Assessors, 2025; Scottish Government, 2025a). Properties in Band H were worth (in 1991) at least 8 times those in Band A, but face a tax rate 3.675 times higher, meaning the tax is regressive with respect to property value. The small number of relatively wide bands also means large jumps in tax liability at band thresholds, especially for higher tax bands, so households with very similar (1991) property values just either side of a threshold can face tax bills differing by many hundreds of pounds per year.

In this context, this report analyses five illustrative reform options, all of which involve properties being revalued based on up-to-date values (see Section 2):

- A **pure revaluation**, which maintains the current eight-band structure, and places the same proportion of properties nationally into each band as currently, but based instead on up-to-date values.
- A revalued **more differentiated 12-band system**, which allows for finer gradation in tax rates across the property value distribution. This includes at the very bottom and very top of the property value distribution, slightly reducing regressivity.
- A revalued **less regressive 12-band system**, which goes further to reduce the regressivity of the current tax rate structure.
- A revalued **less regressive 14-band system**, which further differentiates tax rates while, like the previous system, also reducing the regressivity of the current tax rate structure.
- A revalued **continuous proportional system**, which applies a tax proportional to properties' estimated values. This serves as a benchmark for a system which addresses all the issues mentioned above – out-of-date values, regressivity with respect to property value, and jumps at thresholds.

We consider impacts across different parts of Scotland, on different types of households, and on the rental and sale value of properties.

Methodology and modelling considerations

For our geographical analysis we estimate the Q3 2024 value of a large sample (over 50%) of properties in Scotland using a 'hedonic regression' approach based on data on property characteristics (from the Scottish Assessors and Energy Performance Certificates), local area characteristics (such as deprivation, rural/urban classification and the statistical data zone a property is located in), as well as transaction values for properties that have actually transacted (from Registers of Scotland). These updated values allow us to estimate how different council tax reform options would affect different properties, and after weighting the data to be representative for all properties in Scotland (using Scottish Assessors data), for different parts of Scotland and the country as a whole.

For our household analysis we use a combination of self-reported values for owner-occupied properties and estimated values (again estimated using a ‘hedonic regression’ approach) for rental properties to estimate Q3 2024 property values for a sample of Scottish households drawn from the Understanding Society survey. Again, these updated values allow us to estimate how different council tax reform options would affect different properties and, after weighting the data, different types of households and the country as a whole.

It is important to note that changes in council tax bills under a reformed system would depend not only on changes to the structure of council tax itself, but also on whether and how grant funding to local councils was adjusted and on the tax rates chosen by councils in light of these changes. The choices that would be made on these issues are currently unknown. Therefore, when analysing impacts across council areas and neighbourhoods, we focus on changes in bands and in the tax rates applied to different bands relative to a Band D property in the same council area, as opposed to changes in tax bills. Currently, for example, Band D properties are assigned a relative tax rate of ‘1’, Band A properties 0.667 (and so face a gross tax bill of 66.7% of a Band D property) and Band H properties 2.45 (and so face a gross bill of 245% of a Band D property). We term these gross relative tax rates.

Our analysis of impacts across household types does include estimated changes in council tax bills, under the assumptions that grant funding is approximately fully adjusted in response to the changes in councils’ tax bases (how much revenue they would raise if they set the average Scottish Band D tax rate) under the modelled reform systems and that councils do not change their spending in response. Impacts may differ if grant funding was adjusted by less than that, or if councils spent more/less in response to changes in their tax bases and grant funding, but impacts by household type are less sensitive to assumptions about grant funding than impacts across councils and local areas.

Key findings on the impacts of reform

1. The average property value is estimated to have increased by 357% across Scotland as a whole since 1993. But increases range from 168% in Aberdeen City to 500% in East Lothian, meaning that the relative value of different properties in different parts of Scotland has changed significantly. Property values also range widely, with average (mean) property values estimated at £141,000 in East Ayrshire and West Dunbartonshire, compared with £330,000 in East Renfrewshire and £335,000 in Edinburgh, and £211,000 for Scotland as a whole, as of Q3 2024.

2. We estimate that under a **pure revaluation**, half of properties would remain in the same band, with around a quarter moving up one or more bands and another quarter moving down one or more bands. Far more would move up bands in areas that have seen the biggest increases in property values: for example, we estimate that almost two-thirds would move up one or more band in Edinburgh City. Conversely, in Aberdeen City we estimate that almost two-thirds would move down one or more bands. More properties are estimated to move up bands in the Lothians, as well as the Highlands and Islands, while more are estimated to move down bands in North East and South West Scotland.

3. Under a **continuous proportional system**, changes in the gross relative tax rates that apply to properties would depend not only on how their values have changed since 1991 (as under the pure revaluation), but also on their absolute values, with low- and middle-value properties typically seeing falls and high-value properties typically seeing increases. Changes under such a reform would also often be larger. The average gross relative tax rates faced by properties in more affluent areas would increase substantially, while those in more deprived areas would fall substantially. For example, we estimate that the average gross relative tax rate faced by properties in the least deprived tenth of neighbourhoods would increase by a third, while those in the most deprived tenth of neighbourhoods would see an average fall of a third. We estimate that 81% would see an increase in their gross relative tax rate in Edinburgh City, while 91% would see a fall in Aberdeen City.

4. The effects of the **12-band differentiated, 12-band less regressive and 14-band less regressive systems**, which move part of the way towards a proportional system, would lie between these two benchmark systems. For example, we estimate that under the less regressive systems, average gross relative tax rates would increase by 14% in the most affluent tenth of neighbourhoods and fall by 11% to 14% in the most deprived neighbourhoods. Similar numbers of properties would see increases and decreases as under the continuous proportional system, but the scale of changes would be smaller.

5. A **pure revaluation** would update the property values used to assign council tax bands. This would bring the system closer in line with today's housing market, meaning that two properties in the same council with the same value would no longer face very different tax bills just because they were worth different amounts in 1991. However, it would mean little change in average net tax bills across the income distribution, or across different demographic groups. This is because while different groups (e.g. low- and high-income households) live in properties with different absolute values, the values of their properties are estimated to have changed in similar ways on average since 1991.

6. A **continuous proportional system** would create much bigger changes, with our estimates showing falls in average net tax bills for households in the bottom four-fifths of the income distribution, younger adults (under 45), single pensioners (aged 65 or above), disability benefit recipients and renters. Conversely, average bills would increase for households in the top fifth of the income distribution, older working-age adults (aged 45 to 64), pensioner couples, and owner-occupiers. We estimate that substantially more households would see a reduction in bill of £50 a year or more (46%) than an increase (24%), but the average increase among those seeing an increase (of at least £50) would be almost twice as large as the falls among those seeing a fall (£683 versus £363).

7. The estimated impact of the **12-band differentiated system** on average bills for different groups is very similar to that of the pure revaluation. This reflects the fact that its main effect is to split existing bands up into a greater number of bands, rather than to reduce the regressivity of the system (although it does that to a small extent).

8. The estimated impacts of the **12-band** and **14-band less regressive systems** are very similar to each other – the extra two bands in the 14-band system allow for greater differentiation in bills at the bottom and top of the distribution but have little

effect on the overall distributional impact. Impacts would lie in between the pure revaluation and continuous proportional system. For example, we estimate that average net bills would fall by around £50 a year for the second-lowest-income fifth of households, and increase by around £100 a year for the highest-income fifth. We estimate that there would be little change under a **pure revaluation** and a fall of £130 and rise of £270, respectively, under the **continuous proportional system**.

9. There is strong theoretical and empirical evidence that changes in property taxes affect private-sector property rents: a lower tax bill reduces overall housing costs and so pushes up demand and rents (Oates, 1969; Caldera Sánchez and Johansson, 2011; and Drayton, Levell and Sturrock, 2024). This means that it is owner-occupiers of low-value properties, social tenants, and the landlords (rather than tenants) of low-value private rental properties that are likely to be the biggest beneficiaries of less regressive systems in the long run. Conversely, tenants of high-value private rental properties are likely to be at least partly insulated from higher tax bills once rents adjust.

10. There is also strong evidence that changes in property taxes are reflected in property values, although the scale of these effects is uncertain (Capozza, Green and Hendershott, 1996; Palmon and Smith, 1998; and Høj, Jørgensen and Schou, 2018). It is clear from our analysis, though, that changes would be biggest at the very bottom and top of the property value distribution, where bill changes would be greatest under less regressive council tax systems. For example, in our middle scenario for the effect of tax on prices, under the **12-band** and **14-band less regressive systems**, we estimate that properties worth £60,000 would increase in value by an average of 6–8% as tax bills are reduced. Conversely, we estimate that properties worth £500,000 would fall in value by 3–5% as tax bills are increased. Impacts would be smaller for a pure revaluation and bigger for the continuous proportional system.

Transition and mitigation

As with Wales' 2005 and planned 2028 council tax revaluations (Welsh Assembly Government, 2004; Welsh Government, 2024), transitional reliefs could be used to ease the introduction of a revalued and reformed council tax system. Longer-term mitigation measures could also be designed and implemented for the small number of low-income households seeing higher bills under a more differentiated, less regressive system (although it is worth emphasising that most low-income households would see little change or lower bills).

The type and cost of transition reliefs and mitigation measures needed will depend on the nature of the reforms to council tax undertaken. Under a **pure revaluation**, for example, similar transitional arrangements to those used in Wales's 2005 revaluation could be used: capping the annual increase in bill at the equivalent of moving up one band in a given year, for properties moving up two or more bands. Under the other reform options considered, though, where the structure of the bands themselves would change, such an approach would not provide support to households who remain in the same band but see an increase in their bill. Phasing in changes in bills via annual cash-terms caps instead could provide support to such households. We estimate that:

- Approximately 4% of properties across Scotland would move up two or more bands under a **pure revaluation**.
- A cap on annual increases in bills of 10% or £300 (whichever is smaller) per year (excluding any year-to-year increase in councils' Band D tax rates) would cover between 23% and 33% of properties in its first year under the various modelled reform systems. It would cost around £100 million in its first year under a **pure revaluation**, and £200 million under the **12-band** and **14-band less regressive systems**. Between 2.5% and 5.5% of properties would still be capped in year 4.
- A higher cap of 25% or £600 (whichever is smaller) per year would cover between 7% and 16% of properties in its first year, depending on the reform. First-year costs would be around £50 million under a **pure revaluation** and £130 million for the **12-band** and **14-band less regressive systems**. Fewer than 0.1% of properties would still be capped in year 4.

There is therefore a clear trade-off between the scale and coverage of the scheme on the one hand, and its cost on the other.

In designing mitigation measures for those who might struggle to pay their council tax bill (even with transitional relief), two key groups can be distinguished: the 'cash-poor, asset-rich', which we have defined as those who own high-value properties but have low current incomes and/or liquid assets; and the 'cash-poor, asset-poor', which we have defined as those who rent (or own but have little equity in their homes) and therefore have both low income and low wealth.

For the former, a tax deferral scheme could be implemented to prevent hardship in the short term but enable the appropriate amount of council tax to be collected in the long term. Such a scheme would allow owner-occupiers meeting certain criteria to borrow from their council to cover the cost of council tax in the short-term, with the bill (and accumulated interest) settled at a future date. In designing such a scheme, decisions would need to be taken on which groups would be eligible, the share of their bills that could be deferred, the maximum duration of deferral, and the interest rate to charge on deferral loans.

For those we have defined as 'cash poor, asset poor', who would not already be covered by the means-tested council tax reduction scheme (CTRS), one option would be to retain, in some form, the specific support scheme introduced in 2017 to support low-income households in properties in bands E to H (Scottish Government, 2018). Easing the more general CTRS means test – reducing entitlement to support by 10p rather than 20p for each extra £1 of income above the income limit for maximum support – would extend entitlement to 200,000–300,000 more low- to middle-income households and increase the entitlements of about 200,000 existing claimants, at a cost of between £130 million and £150 million a year.

1. Introduction

This report considers the design and potential impact of reforms to Scotland's system of council tax, a tax levied on the occupiers of residential property to help fund the provision of local services. Overall, the council tax system in Scotland operates as follows: the Scottish Government determines the structure of the tax, while councils set the overall tax rate in each of their areas, and collect and retain the revenues to help fund the services they provide (Scottish Government, 2025a). Across Scotland as a whole, it is budgeted to have raised £3 billion in 2024–25, roughly equal to the amount raised by non-domestic rates, and approximately 19% of councils' general funding for day-to-day (resource) spending (Scottish Government, 2024b).

The amount of tax due on a property depends on (Scottish Assessors, 2025; Scottish Government, 2025a):

- the tax band a property is placed in (from A to H), which in turn depends on its assessed value as of April 1991, the assessment being conducted by valuation joint boards;
- the tax rate set by the council covering the area it is located in; and
- whether the occupier is entitled to an exemption, discount or the means-tested council tax reduction scheme (CTRS), or must pay a premium over the standard rate as a result of rules set by the Scottish Government or local council.

Table 1.1 shows each band's 1991 property value thresholds, share of properties across Scotland as a whole, and associated tax bill based on the average tax level set by Scottish councils.

The bill for a property in Band A is 67% of the bill for a Band D property, while the charge for a property in Band H is 245% of the bill for a Band D property. A majority of properties (58%) are in the bottom three bands, A to C, while only a relatively small fraction (14%) are in the top three bands, F to H.

Table 1.1. Scottish council tax bands and bills, 2025-26

Band	1991 value range	Share of properties	Tax rate relative to Band D	Standard gross tax bill, Scotland average
A	Up to £27,000	19.1%	0.667	£1,029
B	£27,001 to £35,000	22.3%	0.778	£1,200
C	£35,001 to £45,000	16.3%	0.889	£1,372
D	£45,001 to £58,000	14.0%	1	£1,543
E	£58,001 to £80,000	13.9%	1.314	£2,027
F	£80,001 to £106,000	8.4%	1.625	£2,507
G	£106,001 to £212,000	5.4%	1.958	£3,022
H	Above £212,000	0.6%	2.450	£3,780

Source: Share of dwellings in each band and average bills calculated using data from Scottish Government council tax datasets. Note that Band D tax rates – and hence tax rates for all other bands – vary across councils. In 2025–26, for example, Band D rates ranged from £1,379 in South Lanarkshire to £1,666 in Midlothian. Share of properties by band is based on data originally compiled in 2024–25.

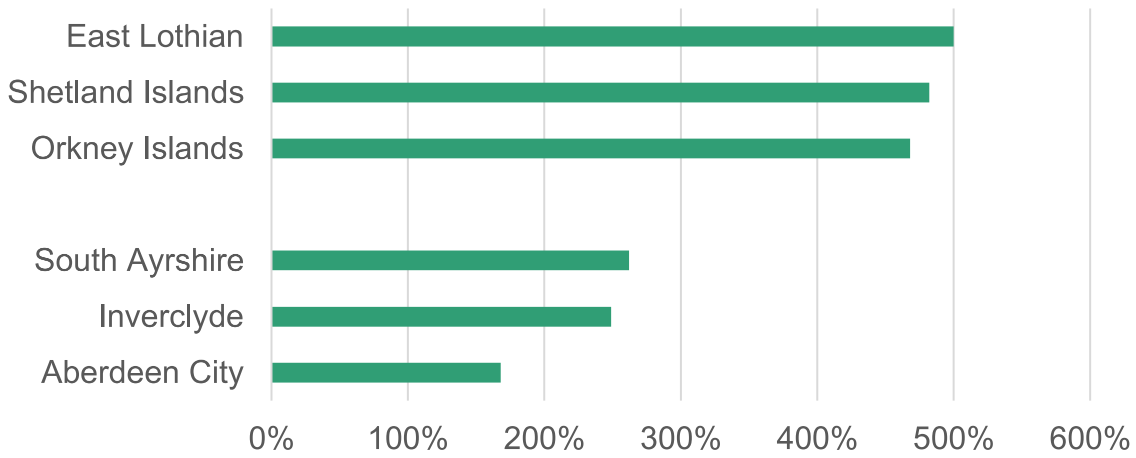
Issues with current council tax design

A number of significant concerns have been raised with the current design of council tax (e.g. Cheshire and Hilber, 2021; Congreve, 2023; Corlett and Gardiner, 2018; Fairer Share, 2021; Hawkey, 2023; Leishman et al., 2014; Mirrlees et al., 2011; Murphy, 2019).

First is the continued use of 1991 property values to assign properties to tax bands (Scottish Assessors, 2025). This may pose practical difficulties for the valuation of new properties by valuation joint boards, which must assess what they would have been worth in 1991. That may be particularly difficult in residential areas that did not exist in 1991, especially if the wider local context has changed (Valuation Office Agency, 2024).

More fundamentally, the use of 1991 valuations creates disparities in council tax bills between properties with similar current values. These disparities arise not because property values have increased so much nationally over the last 34 years: if properties were revalued, the property value thresholds between bands could be reset to account for this. Instead, it is because the values of different properties have changed so differently over the last third of a century – some increasing by much more, and others much less, than average. For example, Figure 1.1, shows that the change in average property value between 1993 (the earliest year for which data is available) and 2024 ranges from 168% in Aberdeen City to 500% in East Lothian (compared with an average of 357% for Scotland as a whole).

Figure 1.2. Percentage change in average property value, 1993 to 2024



Note: highest and lowest three council areas only. All councils are included in Table B.0 in the accompanying Excel workbook.

Source: Scottish Government (1993 to 2004) and UK House Price Index (2004 to 2024).

Values for different properties in the same council area will also have changed differently. As a result, properties in the same council area, with the same value in 1991 and hence in the same tax band and bill, may now differ in value by tens or even hundreds of thousands of pounds.[1] Conversely, two households living in properties in the same council area, with the same value today, can have very different tax bills because one property was worth more than the other 34 years ago.

Second, the banded structure of council tax means that two properties on either side of a band cut-off can attract very different tax liabilities: 31%, or over £480 a year on average (as of 2025–26), higher at the bottom of Band E than at the top of Band D, for example (see Table 1.1). Again, this means that households living in very similar properties can face very different tax bills. Conversely, two properties at opposite ends of the same band attract the same tax liability. This is particularly notable for Band H: all properties in this band in a given council area attract the same gross tax bill regardless of whether they were worth £212,000 in 1991 or were million-pound-plus mansions (see Table 1.1 and Scottish Assessors, 2025). Thus, while there may be practical advantages of a banded system, analysis of systems with more bands or even continuous point-value systems (as in Northern Ireland's domestic rates system: see nidirect, 2025) is also worthwhile as these options could relate tax liabilities more precisely to property values and reduce or remove cliff-edges in bills at band thresholds.

Third, council tax (before discounts) is regressive with respect to property value, by design: the tax is a lower percentage of (1991) property value for higher-value

[1] For example, we estimate that in Edinburgh City, among properties currently in Band D, 10% are worth £207,000 or less while another 10% are worth £410,000 or more. In Aberdeen City the respective figures are £113,000 and £199,000. Thus, there is wide variation in estimated values for properties in a given band both in a given council area and between council areas.

properties. Reforms made by the Scottish Government in 2017 reduced the regressivity to some extent by increasing the relative tax rates on properties in bands E to H (Scottish Government, 2024a). But even following this reform, Table 1.1 shows that the tax levied on a Band H property is 3.675 times higher than that levied on a Band A property in the same council area, despite Band H properties being worth (in 1991) at least 7.85 times more than Band A properties, and in many cases much more than that.[2] A further set of proposed increases in the relative tax rates on Bands E to H consulted upon in 2023 were not enacted following feedback from consultation respondents, some of whom highlighted the fact that the use of 1991 valuations (which they considered 'outdated') meant that these further tax increases would often apply to the 'wrong' properties (Scottish Government, 2024a).

Regressivity of an individual tax is not necessarily a problem – it is the design of the tax (and benefit) system as a whole that matters for distributional outcomes (Mirrlees et al, 2011). However, council tax is deliberately regressive with respect to its base, and as explained in Mirrlees et al. (2011), it is hard on either equity or efficiency grounds to justify why the taxation of housing, but not other goods, should be regressive by design. Indeed, under the tenets of optimal tax theory (e.g. Mirrlees et al., 2011), council tax is a relatively straightforward and efficient tax to make more progressive, since it is harder to reduce a council tax bill than other taxes such as income tax, where more progressive rates may lead to reductions in declared income. Hence, even conditional upon the overall progressivity of the tax system as a whole, there would be potential benefits from making council tax less regressive (and other parts of the tax system, such as income tax or land and buildings transactions tax, less progressive) to redistribute more efficiently (Mirrlees et al, 2011).

Policy context

In light of this context, there has been a broad (albeit not universal) consensus among academics, think tanks, wider civil society and many politicians that the current council tax system is in need of reform, both in Scotland and the rest of the UK (Cheshire and Hilber, 2021; Congreve, 2023; Corlett and Gardiner, 2018; Fairer Share, 2021; Hawkey, 2023; Leishman et al., 2014; Mirrlees et al., 2011; Murphy, 2019).

In Scotland, the official Commission on Land Tax Reform (2015) concluded that the existing council tax system should be replaced with a fairer, more progressive system. As highlighted above, the Scottish Government did modestly increase the relative tax rates on properties in bands E to H in 2017 (Scottish Government, 2018). However, a proposal to 'end' the current system was rejected by the Scottish Parliament in 2018 due to a lack of a consensus on an appropriate alternative system (Scottish Parliament, 2018).

[2] 1991 values are not available for individual properties (only tax bands are). However, we estimate that based on Q3 2024 property values and the updated bandings we model later in this report, the average Band H property would be worth 15.5 times the average Band A property. We would expect a similar figure for existing bands based on 1991 values too.

More recently, the Joint Working Group on Sources of Local Government Funding and Council Tax Reform was established to consider changes to the council tax system (Scottish Government, 2025b). This Group, bringing together the Scottish Government and COSLA, has announced a programme of engagement with stakeholders in 2025, with the aim of building a broad consensus about the way forward for council tax reform.

This report

To help ensure that this engagement is informed by robust analysis of the potential impacts of different reform options – and, implicitly, of continuing with the status quo – the Scottish Government has commissioned researchers at the Institute for Fiscal Studies (IFS) to undertake an analysis of indicative reform options developed jointly by the Scottish Government, COSLA and the IFS. These are designed to illuminate the impacts and trade-offs associated with different possible reforms to council tax in order to help identify those which can command the widest support.

The remainder of this report is structured as follows:

Section 2 sets out the reform options considered in this report. These range from a revalued version of the current 8-band system, through to a revalued proportional property tax, where each property is taxed in proportion to its exact estimated value. The section also explains the type of analysis we undertake, including a summary of our methodological approaches.

Section 3 sets out the estimated impacts of the different reform options on different parts of Scotland. In particular, we consider impacts on the proportion of properties in different bands, and facing different relative tax rates, in different council areas and different neighbourhoods.

Section 4 focuses on the estimated impacts of different reform options on different types of households.

Section 5 considers the potential impacts of reforms on the housing market.

Section 6 considers potential transitional arrangements and mitigations that could help phase in and address potential adverse impacts on population groups of particular concern.

Section 7 concludes and highlights where further research could help deepen the understanding of impacts and refine the design of reforms if council tax revaluation and reform is taken forward.

Appendix A provides further information on our methodology. There is also an accompanying Excel workbook which provides further results from our quantitative modelling, including estimated property values and the estimated impacts of reform options across places, household types and on property values.

2. Reforms modelled and summary of methodology

This section sets out the indicative reform options we model, and our approach to modelling their potential impacts.

2.1 The reforms modelled

Based on engagement with the Scottish Government and COSLA, this report analyses five different hypothetical reforms. Full information is provided in the Table 2.1, but in summary, the reforms analysed are:

- **A pure revaluation.** All properties are revalued based on up-to-date (Q3 2024) values, and assigned to one of eight bands. Band thresholds are set so that the same fraction of properties are in each band as now across Scotland as a whole.
- **A revalued more differentiated 12-band system.** All properties are revalued based on up-to-date values, and assigned to one of 12 bands. This allows for finer gradation in bills, and for a slight reduction in regressivity at the very bottom and very top of the property value distribution.
- **A revalued less regressive 12-band system**, which uses the same revalued bands to differentiate bills more, but goes further to reduce the regressivity of the current tax rate structure.
- **A revalued less regressive 14-band system**, which further differentiates tax bills while reducing the regressivity of the current tax rate structure.
- **A revalued continuous, proportional system.** All properties are revalued based on up-to-date values, and face a gross tax bill (before any exemptions, discounts and premiums) that is proportional to their property values. For example, a property with an estimated value of £300,000 faces a gross bill 3 times as high as a property with an estimated valued of £100,000.

Table 2.1 shows (for the banded systems) the band thresholds, the relative tax rate we assume applies to each band (where the relative tax applied to a Band D property is 1), the tax rate (gross tax bill) in each band if a council set its Band D rate at the current Scottish average (£1,543), and the share of properties that would be in each band across Scotland as a whole.

The table shows that a **pure revaluation** would keep the current tax structure as now, except that the tax bands' upper thresholds would increase: for example, approximately 3.6-fold for Band A (from £27,000 to around £97,000), 4.4-fold for Band D (from £58,000 to around £255,000), and 4.2-fold for Band G (from £212,000 to around £892,000).

The table shows that the **12-band differentiated system** introduces a new band at the bottom (A1), splits up bands E and G into more bands (E1, E2, G1, G2) and adds a new band at the top (I). Splitting up bands E and G allows for smaller jumps in tax rates than currently apply between bands D and G. The new Band A1 and the slightly lower tax rates for bands A2 to C, together with slightly higher tax rates on bands G2 and H and a new Band I, slightly reduce the regressivity of the current council tax system. If a council set its Band D rate at the current Scottish average, compared with a pure revaluation the lowest-value properties (in Band A1) would see a reduction in their standard gross bill of around £170 per year (from £1,029 to £857), with those in bands A2 to C seeing a reduction of around £50 a year compared to the equivalent bands in the current system. The very highest-value properties (in the new Band I) would see an increase in bill of £850 per year.

The **12-band less regressive system** uses the same bands but further reduces the tax rates on bands A2-C and increases them on bands E and above, in order to do more to address the regressivity of the council tax system. If a council set its Band D rate at the current Scottish average, compared with a pure revaluation the lowest-value properties in Band A1 would again see a reduction in gross bill of around £170 a year (from £1,029 to £857), but those in bands A2 to C would now see reductions of £80 to £170 compared to the current equivalent bands (A to C). The very highest-value properties in the new Band I would see an increase in bill of around £1,600 a year.

The **14-band less regressive system** adds two bands at the bottom rather than one (splitting B into B1 and B2 as well as A into A1 and A2) and further differentiates bills at the very top. If a council set its Band D rate at the Scottish average, compared with a pure revaluation the lowest-value properties in Band A1 would see a reduction in bill of around £260 (from £1,029 to £772), with those in bands A2 to C seeing reductions of around £130 to £200 compared to the current equivalent bands (A to C). Band K properties would see an increase in bill of around £2,750 per year.

Table 2.1. New band structures (Q3 2024 property values)

1. Pure Revaluation					2. 12-band differentiated system				
Band	**Upper threshold**	**Relative tax rate**	**Tax rate (2025-26)**	**% of properties**	**Band**	**Upper threshold**	**Relative tax rate**	**Tax rate (2025-26)**	**% of properties**
No data	No data	No data	No data	No data	**A1**	£65,000	0.556	£857	5.45
A	£97,060	0.667	£1,029	20.02	**A2**	£95,000	0.639	£986	13.60
B	£148,147	0.778	£1,200	22.22	**B**	£135,000	0.750	£1,157	18.02
C	£197,575	0.889	£1,372	16.14	**C**	£185,000	0.861	£1,329	17.62
D	£255,106	1	£1,543	13.90	**D**	£250,000	1	£1,543	16.54
E	£347,197	1.314	£2,027	13.75	**E1**	£305,000	1.225	£1,890	9.60
No data	No data	No data	No data	No data	**E2**	£375,000	1.475	£2,275	7.80
F	£469,277	1.625	£2,507	8.20	**F**	£460,000	1.725	£2,662	5.21
No data	No data	No data	No data	No data	**G1**	£560,000	1.975	£3,047	3.04
G	£892,084	1.958	£3,022	5.22	**G2**	£845,000	2.250	£3,433	2.43
H	∞	2.450	£3,780	0.54	**H**	£1,265,000	2.556	£3,943	0.55
No data	No data	No data	No data	No data	**I**	∞	3.000	£4,629	0.14

Note: % of properties excludes garages that are on the existing council tax band list but for which values cannot be estimated using housing transactions values, and which are generally exempt from council tax. Tax rate shows the tax rate if this system applied this financial year and a council set the Scottish average Band D tax rate. The Band D rates councils would set in practice would vary from this and depend, for instance, on how grant funding was adjusted alongside council tax revaluation and reform, and on councils' responses to both the new tax structure and grant allocations.

Source: Authors' calculations using data from the Scottish Assessors, Registers of Scotland, and Energy Performance Certificates.

Table 2.1 (Continued) New band structures (Q3 2024 property values)

3. 12-band less regressive system					4. 14-band less regressive system				
Band	**Upper threshold**	**Relative tax rate**	**Tax rate (2025-26)**	**% of properties**	**Band**	**Upper threshold**	**Relative tax rate**	**Tax rate (2025-26)**	**% of properties**
A1	£65,000	0.556	£857	5.45	**A1**	£65,000	0.500	£772	5.45
A2	£95,000	0.611	£943	13.60	**A2**	£85,000	0.556	£857	8.79
B	£135,000	0.667	£1,029	18.02	**B1**	£110,000	0.611	£943	11.84
No data	No data	No data	No data	No data	**B2**	£145,000	0.694	£1,072	14.97
C	£185,000	0.806	£1,243	17.62	**C**	£185,000	0.806	£1,243	13.65
D	£250,000	1	£1,543	16.54	**D**	£240,000	1	£1,543	14.39
E1	£305,000	1.250	£1,929	9.60	**E**	£315,000	1.325	£2,045	13.12
E2	£375,000	1.525	£2,353	7.80	**F**	£410,000	1.650	£2,546	9.02
F	£460,000	1.850	£2,855	5.21	**G1**	£550,000	2.000	£3,086	5.44
G1	£560,000	2.200	£3,395	3.04	**G2**	£745,000	2.400	£3,703	2.27
G2	£845,000	2.600	£4,012	2.43	**H**	£1,005,000	2.800	£4,320	0.72
H	£1,265,000	3.000	£4,629	0.55	**I**	£1,355,000	3.222	£4,972	0.24
I	∞	3.500	£5,401	0.14	**J**	£1,830,000	3.667	£5,658	0.08
No data	No data	No data	No data	No data	**K**	∞	4.222	£6,515	0.02

Note: See above. Source: See above

As we shall see below, though, its overall distributional effects are very similar to the 12-band less regressive system.

The **continuous proportional system** we model is not shown in Table 2.1 as it has no bands. A property with a value of £207,000 would face the same gross tax bill as a current Band D property, which we again refer to as a relative tax rate of 1. That means a property worth half of that, £103,500, would face a relative tax rate of 0.5, compared with 0.778 under a pure revaluation, 0.75 under the 12-band differentiated system, 0.667 under the 12-band less regressive system and 0.639 under the 14-band less regressive system. Conversely a property worth £414,000 would face a relative tax rate of 2, compared with 1.625, 1.725, 1.85, and 2 under the other systems. And a property worth £2,070,000 would face a relative tax rate of 10, compared with 2.45, 3, 3.5 and 4.222, respectively. This shows that the less regressive 12-band and 14-band systems would move closer to a proportional system for the bulk of the property value distribution, but would still be very far from the proportional system for the highest value properties.

When analysing the impact of these reforms across council areas and neighbourhoods, we focus on changes in bands and the relative tax rates applied to different bands (where a Band D property has a relative tax rate of 1 as in Table 2.1), as opposed to changes in tax bills. For our household-level analysis, we model the impact of each reform on tax bills on a revenue-neutral basis: that is, after accounting for any changes in the cost of exemptions, discounts, premiums and the means-tested CTRS, net council tax revenue and the average net bill across Scotland as a whole under the reform systems is the same as under the current council tax system.[3] This allows us to examine the effect of revaluation and reform separately from any decisions over how much or how little to raise from council tax overall. Our remit in this report was to model the reforms on a revenue-neutral basis across Scotland as a whole – although reforms would not be revenue-neutral for each individual council area. Note that it is the tax rates set by local councils that ultimately determine council tax revenue, and would therefore determine whether reforms would be revenue-neutral in practice. But if grant funding levels were maintained, it would be possible for councils to maintain spending while setting tax rates that are revenue-neutral across Scotland as a whole.

[3] Underlying this are several further implicit assumptions. In particular, we assume that councils collectively receive the same total amount in grant funding from the Scottish Government and spend the same total amount on local public services regardless of the structure of the council tax system. That means that in aggregate they must raise the same revenue from council tax regardless of the structure of the council tax system, thus implying that the average council tax bill across Scotland as a whole is unaffected by the structure of the council tax system.

Transition and mitigation measures

In addition to modelling reforms to the council tax rate structure, we also consider a number of transition and mitigation measures, which are discussed in detail in Section 6 of this report. We are able to model the following quantitatively:

- **Transitional arrangements** that phase in sizeable increases in bills gradually.
- **An enhanced council tax reduction scheme** for ‘cash-poor, asset-poor’ households whose incomes are too high for them to qualify for CTRS under current rules, and who face increased bills as a result of increases in tax rates applied to bands.

A lack of suitable data prevents us from accurately modelling a **deferral scheme** (allowing ‘cash-poor, asset-rich’ households facing large increases in bills to defer paying them until, for example, a property is sold or its owner dies). But key considerations for such a scheme are discussed in Section 6.

2.2 Approach and methodology summary

Our report considers the potential impacts of council tax reform both across different places and across different types of households.

Geographical analysis

Our place-based analysis considers the impact of the reform options on the share of properties in different tax bands and facing different relative tax rates in different council areas and different small neighbourhoods (technically ‘data zones’).

In order to estimate these impacts, the key step is to estimate an up-to-date property value for each property in Scotland. Full methodological information is provided in a separate methodology appendix (Appendix A), but in summary:

- We utilise data from three main property-level data sources: (1) Scottish Assessors data on all residential properties in Scotland, which tells us each property’s existing council tax band as well as some characteristics; (2) energy performance certificate (EPC) data, which provides further information on property characteristics (such as size, build date and energy efficiency) for a (large) sub-set of properties; and (3) Registers of Scotland data on the date and purchase price for properties that have transacted. We also use data on a range of local area characteristics, including deprivation and rural/urban classification, as well as the neighbourhood (‘data zone’ or ‘intermediate zone’ depending on sample size) a property is located in.

- Using those properties that have transacted and that we are able to match between all of the above datasets, we use regression analysis to estimate the relationship between property transaction price and various explanatory variables such as the date of transaction, property characteristics, local area characteristics, and specific geographic location.[4]
- Using the estimated relationships, we then predict a Q3 2024 property value for all properties we are able match between the Scottish Assessors and EPC data – approximately 1.45 million properties, or 56% of all properties in the Assessors data (excluding garages). To make this fully representative, we then weight this data so that the number of properties by tax band and property type in each post code district (e.g. EH1) and council area matches the totals reported in Scottish Assessors data.
- Once we have an estimated up-to-date value for each property, we assign properties to the chosen tax bands and corresponding tax rates described in Section 2.1. We can then estimate the number of properties in each area that would fall in each band, and face the associated relative tax rate, under each alternative council tax structure.

It is important to note that we do not estimate the changes in net council tax bills that households in different councils or neighbourhoods would face. In order to do that accurately, the analysis would need to account for which properties are subject to different discounts, exemptions, premiums and the CTRS, and to account for how grant funding would be adjusted alongside any updated council tax system.

In particular, information on discounts, exemptions, premiums and the CTRS would be needed because they affect households' net tax bills, and in turn the tax rates councils need to set to raise a given amount of net revenue. We do not currently have data on these for all properties in Scotland – only the survey sample used for the household-level analysis discussed below.

It would also be important to account for grant adjustments because, as highlighted by Adam et al. (2020a, 2020b), it is this (as well as councils' tax-and-spending preferences), rather than the council tax system itself, which is the main determinant of how average council tax bills vary across councils. There are a range of different options for adjusting grants to account for council tax revenue-raising capacity (and for the impact of revaluation and reform on that capacity), but a concrete example can help to explain its importance for determining the impact of revaluation and reform. Suppose for instance, that

[4] Specifically, our approach is similar to what is termed 'hedonic regression analysis' in the academic literature. It differs from true hedonic regression analysis because the aim of that method is to estimate the true causal effects of different property and local area characteristics on property values. We are not interested in causal effects per se – just being able to predict property values for properties in Scotland. If a variable we include does not itself directly affect property values but is correlated with a variable we do observe which does, that variable is still useful as an explanatory variable in our property value equation.

councils wanted to maintain spending following reform. In that case, if grant funding were not adjusted, then each council would need to raise the same amount via council tax as in the absence of reform and so charge the same average council tax bill as in the absence of reform. Thus, in such circumstances, a council seeing a fall in its tax base as a result of reform would have to set a higher Band D rate to offset this fall and leave average tax bills unchanged, and vice versa. As a result, revaluation and reform would still lead to a big redistribution of tax bills across individual households within a council area (e.g. within Edinburgh City), but it would not redistribute tax bills across council areas (e.g. between Edinburgh City and Glasgow City). The more grant funding was adjusted to reflect changes in different councils' tax bases as a result of revaluation and reform, the more the reforms would redistribute tax bills across council areas as well as within them. In reality, councils may or may not wish to maintain spending if the council tax system were reformed. Moreover, while the grant funding the Scottish Government provides to councils currently takes partial account of their existing council tax bases other approaches would be possible (Scottish Government, 2025f). But this example illustrates the importance of grant funding decisions to the impact of revaluation and reform of council tax across places.

Collating disaggregated data on discounts etc. and making decisions on grant funding are beyond the scope of this project. Our geographical analysis therefore focuses on the share of properties in each band by council area and local area, and the average relative tax rates applied to properties by council area and local area given these tax bands, rather than on council tax bills. Further analysis that accounted for discounts etc. and grant funding decisions could be undertaken in future to allow estimation of impacts of reforms on average council tax bills by councils and local areas.

Household-level analysis

Our household-level analysis considers the impact of the reform options on the gross and net council tax bills of a survey sample of Scottish households, weighted to be representative of Scotland as a whole. From this we calculate the proportion of households that would see bills increase or decrease by different amounts as a result of the different reform options, as well as average changes in bills for different household types. This includes groups defined based on household income, the age of the oldest adult in a household, housing tenure, and so on.

Again, the key step is to estimate an up-to-date value for each property. Full methodological information is provided in a separate methodology appendix (Appendix A), but in summary:

- Our main source of data is from waves 8 to 10 and 14 of the Understanding Society household panel survey, covering households interviewed between

2016 and 2019, and between 2022 and 2023.[5] This contains information on household demographics and incomes, various property characteristics, existing council tax band and, for those properties which are owner-occupied, the owner's self-reported estimate of their property's value. We combine this with publicly available data on a range of local area characteristics, including deprivation and rural/urban classification, from the Scottish Index of Multiple Deprivation (SIMD) 2020 and the Scottish Government Urban Rural Classification 2020 (Scottish Government, 2020; Scottish Government, 2022).

- For owner-occupied properties, we uprate self-reported property values to Q3 2024 values using council- and property-type-level changes in property values according to the UK house price index.
- We use regression analysis to estimate the relationship between (uprated) self-reported property value and various explanatory variables such as the survey date, property characteristics, local area characteristics and specific geographic location.
- Using that estimated relationship, we then predict a Q3 2024 property value for all other properties (which are mainly rental properties).
- Once we have an estimated up-to-date value for each property, we can assign properties to the chosen tax band and rate structures described in Section 2.1. Given the information on other household characteristics in the survey data, we then use the IFS tax and benefit microsimulation model, TAXBEN, to estimate each household's net council tax liability (accounting for single-person discounts, CTRS entitlements, etc.) under both current and alternative council tax systems and look at the resulting patterns of bill changes by household characteristics.

Our household-level modelling assumes that, in approximate terms, grant funding would be fully redistributed between councils to account for the fact that the amounts they could raise under the reformed systems for a given tax rate (their 'tax base') would change in different ways.[6] If the grant funding was only partially adjusted, or not adjusted at all, this would change the impacts across groups, but to a lesser extent than for the geographical analysis.

[5] Waves 11 to 13 were adversely affected by the Covid-19 pandemic and have therefore been omitted.

[6] The methodology appendix (Appendix A) explains why our modelling is approximately but not precisely consistent with this assumption.

3. Impacts across places

This section examines the impact of revaluation and reform across different places – specifically different council areas and neighbourhoods (data zones).

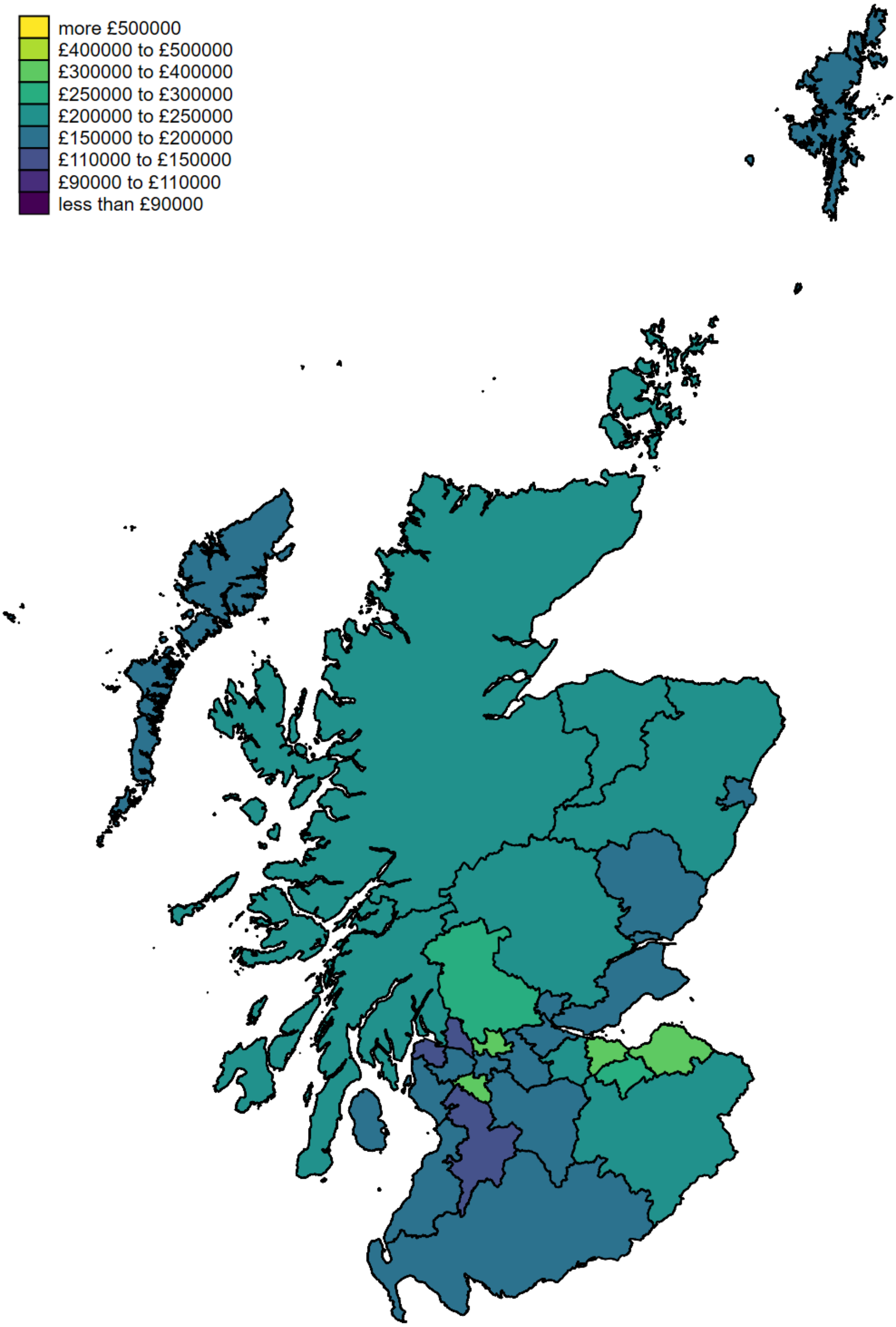
We begin by first showing our estimates of average property value by council area and data zone in map format – full information on these averages and property value distributions can be found in our accompanying Excel workbook of further results. We then look at impacts of council tax reform options across council areas, before considering impacts on neighbourhoods with different characteristics (such as with more or less deprivation, and in more urban or more rural areas).

3.1 Estimated property values

Figure 3.1 shows our estimates of the average value of properties by council area in Scotland as of Q3 2024. Average (mean) values are estimated to be lowest in East Ayrshire (£140,000), Inverclyde (£140,000) and West Dunbartonshire (£141,000). At the other end of the spectrum, average (mean) values are estimated to be highest in East Dunbartonshire (£322,000), East Renfrewshire (£331,000) and Edinburgh (£335,000). This compares to an average (mean) estimated value for Scotland as a whole of £211,000. Further information on how the distribution of estimated property values varies by council area can be found in Table B.1a in the accompanying Excel workbook.

Estimated values vary even more significantly at the neighbourhood level. For example, in the tenth of data zones (areas containing between 500 and 1,000 residents) with the lowest property values, the average (mean) estimated property value is less than £99,000. On the other hand, in the tenth with the highest property values, the average estimated property value is more than £353,000. As shown in Table B.1b in the accompanying Excel workbook, values are highly correlated with deprivation levels: the average (mean) estimated value for properties located in the most deprived tenth of local areas in Scotland is £107,000, compared to £388,000 for those located in the least deprived tenth of local areas.

Figure 3.1. Estimated average (mean) property value by council area, Q3 2024



Source Authors' calculations using data from the Scottish Assessors, Registers of Scotland, and Energy Performance Certificates.

Table B.1c in the accompanying Excel workbook shows that average (mean) estimated values are highest in ‘accessible rural’ areas – settlements of less than 3,000 but within 30 minutes’ drive of a settlement of 10,000 or more – at £277,000. They are lowest in ‘very remote small towns’ – settlements of 3,000 to 10,000 that are over 1 hour drive to a settlement of 10,000 or more – at £166,000.

Property values are most varied in large settlements and particularly the area around Glasgow which contains council areas and neighbourhoods with both very low and very high average property values (see the maps at the bottom of Table B.1 in the accompanying Excel workbook).

3.2 Impacts across council areas

We now turn to the estimated impacts of our four reform options across council areas. Full estimates of the share of properties by current and new tax band can be found in Tables B.2 and B.3 in the accompanying Excel workbook. Here we summarise results using three main metrics:

- For the pure revaluation system, we estimate the percentage of properties in a council area moving up one or more bands, remaining in the same band, and moving down one or more bands.
- For all other systems, we estimate the percentage of properties in a council area seeing an increase, no change and a decrease in their gross relative tax rate (where the relative tax rate for a Band D property is 1) compared to the current council tax system. (For the pure revaluation system, this would be the same as the percentages moving up and down bands).
- For all systems, we estimate the average gross relative tax rate of properties in a council area, and how this changes compared with the current council tax system.

Note that changes in the relative tax rates properties are subject to are not the same as the change in the bills they would face: this will depend on any changes made to council tax rates, and any adjustments made to grant funding for councils alongside any revaluation and reform of council tax. It will also depend on whether given properties are subject to exemptions, discounts or premiums. However, in general properties seeing a decline in their gross relative tax rate are more likely to see a fall in their tax bill than properties seeing an increase in their gross relative tax rate. Gross relative tax rates are therefore a meaningful measure of how reforms are likely to affect households in different parts of Scotland.

Changes in bands and relative tax rates

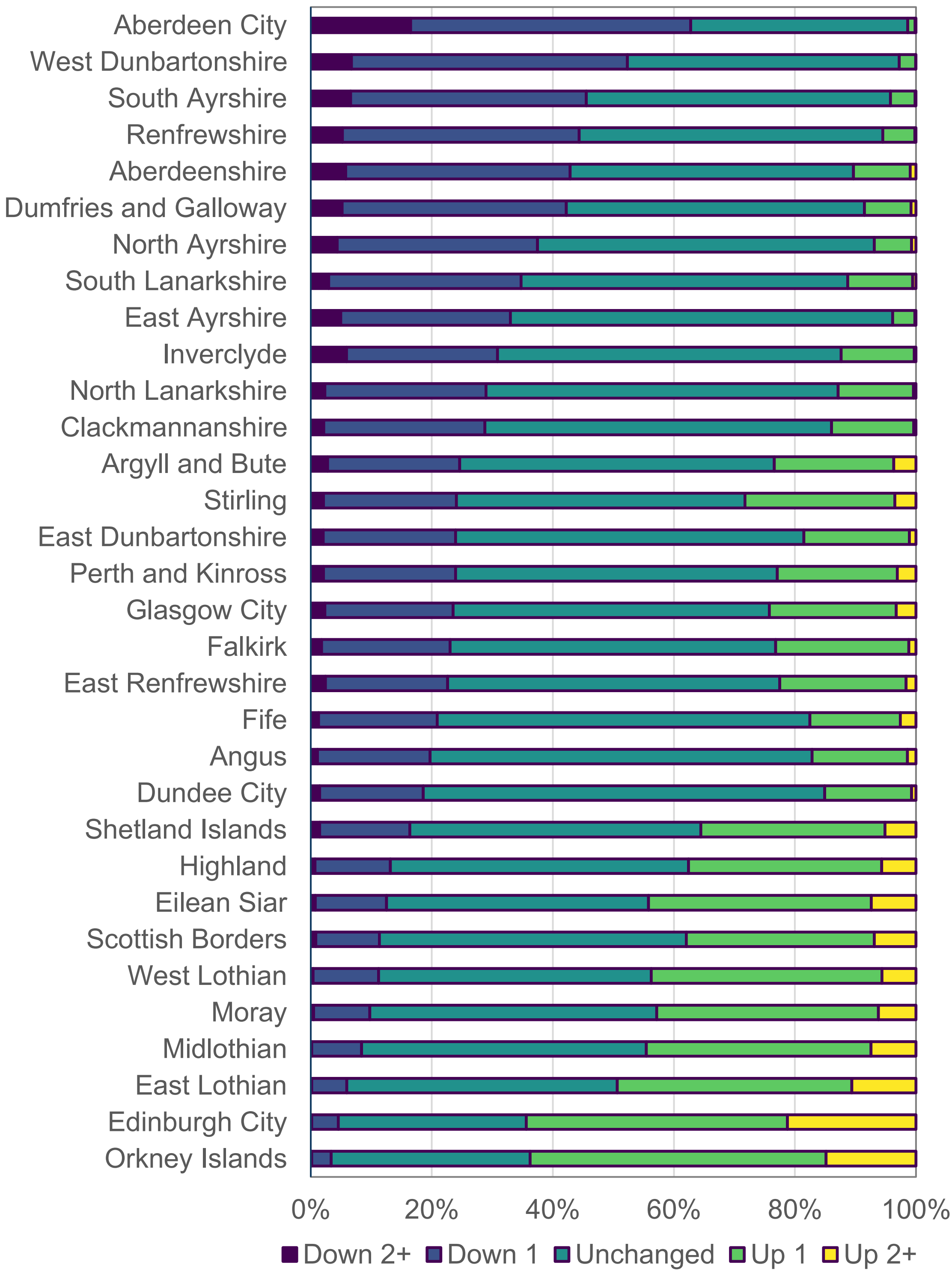
Under the **pure revaluation system,** around half of properties would remain in the same band, with 23% moving down 1 band, 3% moving down 2 or more bands, 20% moving up 1 band and 4% moving up 2 or more bands.

Figure 3.2 shows our estimates of the percentage of properties moving up bands, remaining in the same band, and moving down bands by council area under this system. Council areas where property values have increased by more than the Scottish average between 1991 and 2024 would generally see more properties move up bands than down, whereas those where property values have increased by less than average over the same period generally see more properties move down bands than up. (The relationship is not perfect as band movements depend on the relative change in values of individual properties, not council-level averages).

Figure 3.2 shows that we estimate that a majority of properties would move down bands in Aberdeen City and West Dunbartonshire. Around a sixth of properties (16%) in Aberdeen City would move down two or more bands. Conversely, we estimate that over half would move up bands in Edinburgh City and the Orkney Islands, with over a fifth (21%) moving up two or more bands in the capital. Areas such as Angus, East Renfrewshire, Falkirk and Glasgow City would see roughly equal numbers move up and down bands. Angus, Dundee City, East Ayrshire and Fife would see the smallest percentage moving band – over 60% of properties are estimated to remain in the same band in each of these council areas.

Table 3.1 shows the proportion of properties estimated to see an increase, no change, and a fall in the gross relative tax rate under each of the other reform systems we model, by council area. The changes in the structure of council tax these entail mean that even if a property's value has increased in line with the national average since 1991, it is still likely to see a change in its gross relative tax rate: for example, the **less regressive 12-band and 14-band systems** and **continuous proportional system** reduce relative tax rates for low-value properties and increase them for high-value properties. But the rate of increase in property value since 1991 still matters – properties whose value has increased by more since 1991 will have moved up the property value distribution and therefore may have moved up the tax band distribution too, even if their value remains below the average.

Figure 3.2. Estimated band movements by council area, pure revaluation



Note: Full results can be found in Table B.4 in the accompanying Excel workbook.

Source: Authors' calculations using data from the Scottish Assessors, Registers of Scotland, and Energy Performance Certificates.

For example, it can be seen in Table 3.1 that in Aberdeen City, under the **12-band differentiated system**, we estimate that 93% of properties would see a reduction in the gross relative tax rate applied to them (relative to a Band D property in Aberdeen City, whose Band D rate might change in response to the reform), 4% would see no change (those that remain in Band D), and 3% would see an increase. The fact that more are estimated to see a reduction than under a pure revaluation reflects the introduction of Band A1, as well as slightly lower tax rates than in the current system on bands A2 to C and Band E1. The proportion of properties moving up and down is very similar under the other systems, although the size of the changes in relative tax rates for those estimated to see a change is generally larger (especially under the **continuous proportional system**).

As well as Aberdeen City, other council areas where we estimate that a large majority of properties would see a fall in the gross relative tax rate they face under the 12-band, 14-band and continuous proportional systems we model include West Dunbartonshire (between 82% and 88% depending on the system), East Ayrshire (between 82% and 87%), North Ayrshire (between 78% and 84%) and Inverclyde (between 78% and 87%). These are all areas which have seen below-average increases in property values and have low average values.

At the other end of the spectrum, we estimate that 82% of properties in Edinburgh City would see an increase in the gross relative tax rate applied to them under the **12-band differentiated system**. It is estimated that between 80% and 83% would see an increase under the other systems modelled, with the scale of increases among those seeing increases generally being larger (especially for the **continuous proportional system**). Other council areas that we estimate would see a majority of properties face an increase in relative tax rate under all modelled systems include East Lothian (between 72 and 76%), Midlothian (between 65 and 69%) and the Orkney Islands (between 63% and 76%). These are all areas which have seen both above-average increases in property value and that now have above-average values. We estimate that East Dunbartonshire and East Renfrewshire would see a majority of properties face an increase in relative tax rate under a **continuous proportional system** – reflecting the high average values in these areas.

Table 3.1. Percentage of properties estimated to see their gross relative tax rate decrease (go down), remain the same and increase (go up), by council area

	12-band differentiated			12-band less regressive			14-band less regressive			Continuous Proportional		
	Down	Same	Up	Down	Same	Up	Down	Same	Up	Down	Same	Up
Aberdeen City	93%	4%	3%	92%	3%	5%	87%	5%	7%	91%	1%	8%
Aberdeenshire	71%	10%	18%	71%	12%	17%	59%	16%	25%	71%	5%	25%
Angus	62%	10%	28%	62%	13%	25%	57%	16%	28%	66%	5%	30%
Argyll and Bute	55%	8%	37%	55%	8%	37%	49%	11%	39%	55%	4%	40%
Clackmannanshire	68%	8%	24%	68%	14%	18%	65%	14%	21%	77%	4%	19%
Dumfries and Galloway	77%	7%	15%	77%	8%	15%	71%	12%	17%	79%	3%	17%
Dundee City	69%	8%	24%	69%	14%	18%	69%	11%	20%	77%	4%	20%
East Ayrshire	87%	5%	8%	87%	7%	7%	82%	10%	9%	87%	2%	11%
East Dunbartonshire	42%	15%	43%	42%	11%	47%	31%	19%	51%	36%	4%	59%
East Lothian	20%	8%	72%	20%	6%	74%	15%	9%	76%	19%	5%	76%
East Renfrewshire	39%	14%	47%	38%	9%	53%	29%	15%	56%	34%	4%	62%
Edinburgh City	12%	6%	82%	12%	8%	80%	8%	8%	83%	14%	5%	81%
Eilean Siar	38%	7%	54%	38%	23%	38%	43%	12%	45%	60%	8%	32%
Falkirk	57%	9%	34%	57%	19%	24%	56%	14%	30%	71%	6%	23%
Fife	64%	7%	29%	64%	10%	26%	60%	12%	28%	68%	4%	28%
Glasgow City	60%	7%	33%	60%	12%	28%	61%	9%	30%	67%	4%	29%
Highland	36%	10%	53%	36%	16%	48%	32%	15%	53%	42%	7%	51%

Table 3.1. (Continued) Percentage of properties estimated to see their gross relative tax rate decrease (go down), remain the same and increase (go up), by council area

	12-band differentiated			12-band less reg.			14-band less reg.			Cont. Proportional		
	Down	Same	Up	Down	Same	Up	Down	Same	Up	Down	Same	Up
Inverclyde	78%	4%	18%	78%	13%	9%	79%	7%	14%	87%	2%	11%
Midlothian	25%	10%	65%	25%	8%	67%	18%	12%	69%	25%	8%	67%
Moray	35%	9%	56%	35%	21%	44%	34%	15%	51%	49%	7%	44%
North Ayrshire	83%	5%	12%	83%	7%	10%	78%	10%	12%	84%	2%	14%
North Lanarkshire	72%	7%	21%	72%	14%	14%	70%	11%	18%	79%	3%	17%
Orkney Islands	18%	6%	76%	18%	16%	66%	20%	8%	71%	30%	7%	63%
Perth and Kinross	50%	12%	38%	50%	12%	38%	41%	16%	43%	50%	6%	44%
Renfrewshire	79%	8%	13%	79%	7%	14%	70%	13%	17%	77%	4%	19%
Scottish Borders	39%	8%	53%	39%	15%	47%	38%	9%	53%	48%	5%	47%
Shetland Islands	45%	9%	45%	45%	21%	33%	46%	14%	39%	59%	7%	35%
South Ayrshire	77%	10%	13%	77%	8%	15%	66%	15%	19%	73%	3%	24%
South Lanarkshire	70%	9%	21%	70%	13%	17%	64%	14%	22%	73%	4%	24%
Stirling	43%	11%	46%	42%	15%	43%	35%	13%	52%	48%	7%	45%
West Dunbartonshire	87%	6%	7%	87%	6%	6%	82%	11%	8%	88%	2%	10%
West Lothian	33%	8%	60%	33%	17%	51%	31%	12%	57%	46%	8%	46%
Scotland	57%	8%	35%	57%	11%	32%	52%	12%	36%	61%	4%	35%

Note: The ‘same’ (i.e. no change) category is defined as a change in gross relative tax rate of between -0.02 and +0.02.

Source: Authors’ calculations using data from the Scottish Assessors, Registers of Scotland, and Energy Performance Certificates.

Average relative tax rates by council area

With properties moving up and down bands and seeing their relative tax rates change, the average gross relative tax rates in different council areas would change under each of the reforms modelled. This is illustrated in Table 3.2. As explained above, Band D property has a relative tax rate of 1, and currently Bands A and H have relative tax rates of 0.667 and 2.45 respectively. Thus, the 1.028 average gross relative tax rate under the current system for Aberdeen City means that the average gross council tax bill in Aberdeen City is slightly higher than that for a Band D property. The 0.881 for Dundee City means that properties there on average attract a gross council tax bill just below that for a Band C property (which would be 0.889).

Changes in relative tax rates under a **pure revaluation** would depend on whether property values in an area have increased by more or less than the average across Scotland as a whole since 1991, when current bands were first set.

Table 3.2 shows that we estimate that a **pure revaluation** would lead to notable declines in the average gross relative tax rate faced by properties in Aberdeen City and Aberdeenshire as more properties move down than up bands (Figure 3.2), in turn reflecting the below-average increase in property values in North East Scotland since 1991 (see Figure 1.1 and Table B.0 in the accompanying Excel workbook). For example, we estimate that the average gross relative tax rate faced by properties in Aberdeen City would fall to 0.888 – equivalent to that faced by a Band C property (roughly in line with Dundee City). Other areas that we estimate would see a decline in the average relative tax rate would include Dumfries and Galloway (0.996 to 0.927), East Ayrshire (0.907 to 0.848), North Ayrshire (0.925 to 0.871), South Ayrshire (1.072 to 0.992) and West Dunbartonshire (0.923 to 0.844). At the other end of the spectrum, we estimate there would be large increases for Edinburgh City (1.137 to 1.307) and the three other councils in the Lothians, the Orkney Islands (0.918 to 1.047), Highland (1.027 to 1.075) and Moray (0.947 to 1.001). According to our estimates, this means, for example, that the average relative tax rate faced by properties in the Orkney Islands would increase from just over that faced by a Band C property to over that faced by a Band D property.

Table 3.2. Estimated average gross relative tax rate by council area

Council area	**Current**	**Pure Reval**	**12-band Diff**	**12-band LR**	**14-band**	**Continuous Proportional**
Aberdeen City	1.028	0.888	0.874	0.857	0.842	0.766
Aberdeenshire	1.148	1.05	1.055	1.059	1.066	1.053
Angus	0.964	0.956	0.948	0.937	0.936	0.884
Argyll and Bute	1.058	1.064	1.074	1.086	1.08	1.084
Clackmannanshire	0.978	0.938	0.935	0.918	0.912	0.864
Dumfries and Galloway	0.996	0.927	0.921	0.902	0.898	0.843
Dundee City	0.881	0.875	0.862	0.838	0.827	0.743
East Ayrshire	0.907	0.848	0.821	0.804	0.785	0.676
East Dunbartonshire	1.287	1.294	1.34	1.41	1.403	1.551
East Lothian	1.156	1.261	1.302	1.36	1.365	1.508
East Renfrewshire	1.314	1.328	1.377	1.458	1.443	1.597
Edinburgh City	1.137	1.307	1.355	1.427	1.431	1.614
Eilean Siar	0.855	0.896	0.895	0.858	0.86	0.813
Falkirk	0.965	0.945	0.945	0.925	0.923	0.876
Fife	0.988	0.986	0.989	0.984	0.979	0.958
Glasgow City	0.933	0.947	0.947	0.934	0.928	0.896
Highland	1.027	1.075	1.087	1.092	1.101	1.109
Inverclyde	0.898	0.847	0.821	0.803	0.783	0.676
Midlothian	1.081	1.144	1.165	1.185	1.196	1.244
Moray	0.947	1.001	1.006	0.992	1.002	0.98
North Ayrshire	0.925	0.871	0.854	0.836	0.822	0.73
North Lanarkshire	0.922	0.889	0.876	0.853	0.843	0.761
Orkney Islands	0.918	1.047	1.055	1.049	1.066	1.06
Perth and Kinross	1.116	1.104	1.12	1.134	1.139	1.166
Renfrewshire	1.009	0.936	0.927	0.915	0.908	0.847
Scottish Borders	1.023	1.067	1.079	1.093	1.087	1.1
Shetland Islands	0.904	0.929	0.927	0.901	0.91	0.862
South Ayrshire	1.072	0.992	0.992	0.991	0.985	0.955
South Lanarkshire	1.01	0.966	0.964	0.957	0.95	0.912
Stirling	1.174	1.161	1.189	1.218	1.215	1.288
West Dunbartonshire	0.923	0.844	0.824	0.796	0.781	0.68
West Lothian	0.989	1.035	1.047	1.04	1.043	1.044
Scotland	1.018	1.018	1.024	1.027	1.024	1.018

Source: Authors' calculations using data from the Scottish Assessors, Registers of Scotland, and Energy Performance Certificates.

Under the other systems it is not just the change in property values but the values themselves that affect the change in relative tax rate faced by properties. Because these systems all reduce the regressivity of council tax with respect to property values (a little in the case of the **12-band differentiated system** and fully in the case of the **continuous proportional system**), in areas where property values have not only increased by less than average but are also low in absolute terms, making council tax less regressive would further reduce the average relative tax rate. For example, under the **14-band less regressive system**, we estimate that the average relative tax rate would fall further to 0.842 in Aberdeen City, 0.785 in East Ayrshire, and 0.781 in West Dunbartonshire – in the latter two cases close to the level currently faced by Band B properties (0.778). Similarly, in areas where property values have not only increased by more than average but are also high in absolute terms, making council tax less regressive would further increase the average relative tax rate. For instance, under the **14-band less regressive system**, we estimate that the average relative tax rate faced by properties would further increase to 1.431 in Edinburgh, 1.365 in East Lothian and 1.196 in Midlothian.

There are some areas, though, where the effects of revaluation and making council tax less regressive work in opposite directions. These include Perthshire and Stirling, where we estimate that revaluation alone would slightly reduce the average relative tax rate, but making council tax less regressive would slightly increase the average relative tax rate. This reflects the fact that, while property values in these areas have increased by slightly less than average since 1991, they remain above average.

Similarly, while East Dunbartonshire and East Renfrewshire have seen property values move broadly in line with the Scottish average and so we estimate that they would see little change in average tax rate under a pure revaluation, their high average values mean we estimate that they would see substantial increases in average relative tax rates under less regressive council tax systems.

3.3 Impacts across neighbourhoods

Variation in the impacts of revaluing and reforming council tax would be greater across neighbourhoods than across council areas, reflecting within-council variation in changes in, and the level of, property values.

Impacts by neighbourhood

The detailed data underlying our geographical estimates allow us to estimate the impacts of reforms for each Scottish ‘data zone’ (areas which typically contain 500 to 1,000 people) and ‘intermediate zone’ (groupings of data zones which typically contain between 2,500 and 6,000 people). In urban areas these can reasonably be termed ‘neighbourhoods’, but in very sparsely populated rural areas they can cover areas of hundreds of square miles.

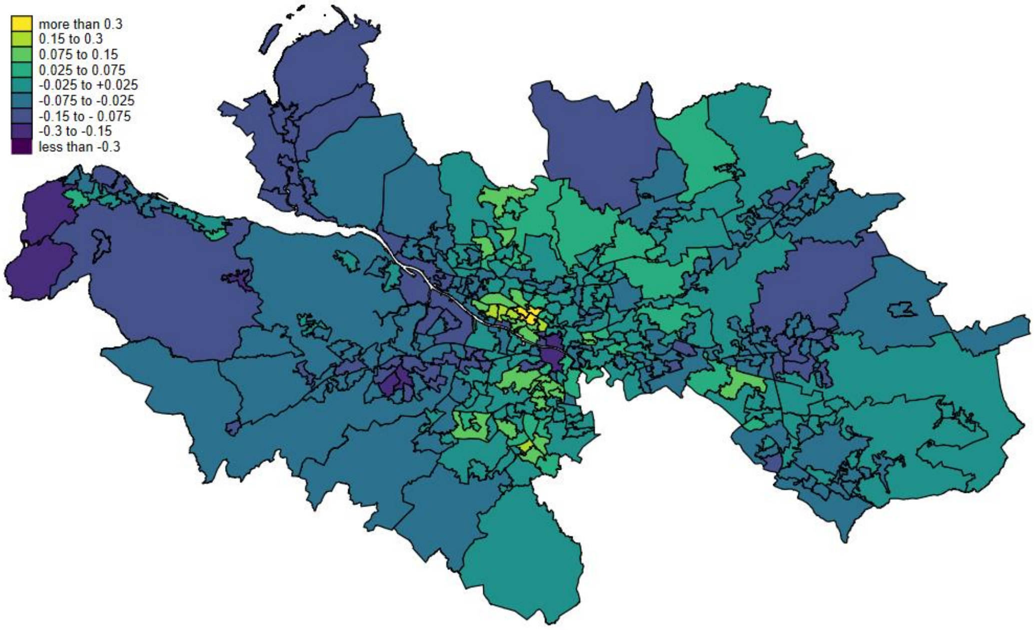
Maps showing the estimated change in average gross relative tax rates for properties in each intermediate zone in Scotland can be found in Table B.5 in the accompanying Excel workbook. Areas seeing an estimated increase in their average gross relative tax rates are shown in yellow and green, while areas seeing an estimated decrease are shown in blue and purple, with areas seeing little change (defined as -0.025 to +0.025) shown in turquoise. In interpreting these figures, it is important to remember that the gross relative tax rate for a Band D property is 1. Thus, a change in the gross relative tax rate of -0.1 means that the average gross relative tax rate for properties in a neighbourhood would fall by the equivalent of 10% of the tax charged on a Band D property in that council area. A change of +0.2 would mean that the average gross relative tax rate would increase by the equivalent of 20% of the tax charged on a Band D property in the relevant council area.

Example maps for Glasgow and its environs are shown in Figure 3.3 and 3.4, which show the estimated changes in average gross relative tax rates for intermediate zones under the **pure revaluation** and **continuous proportional** systems.[7]

The blues on the western side of Figure 3.3 show that we estimate that a **pure revaluation** would reduce the average gross relative tax rate faced by properties in most neighbourhoods in Inverclyde, Renfrewshire and West Dunbartonshire. The greens and yellows towards the centre of the map show revaluation is estimated to increase average gross relative tax rates in the west end of Glasgow, and parts of the outer south side of Glasgow, Giffnock and Clarkston. The blues for the east of the map show an estimated fall in average gross relative tax rates for much of North Lanarkshire.

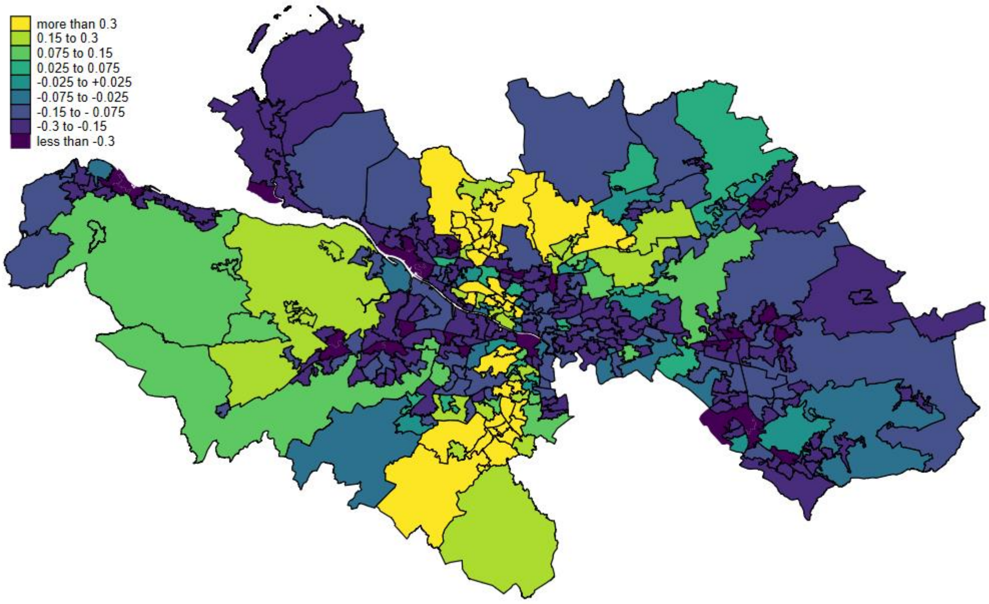
[7] We define this as Glasgow City plus East Dunbartonshire, East Renfrewshire, Inverclyde, North Lanarkshire, Renfrewshire and West Dunbartonshire.

Figure 3.3. Average estimated change in gross relative tax rates in Glasgow and its environs under a pure revaluation



Source: Authors' calculations using data from the Scottish Assessors, Registers of Scotland, and Energy Performance Certificates.

Figure 3.4. Average estimated change in gross relative tax rates in Glasgow and its environs under a continuous proportional system



Source: Authors' calculations using data from the Scottish Assessors, Registers of Scotland, and Energy Performance Certificates.

The yellows and purples in Figure 3.4 show the much larger estimated changes in gross relative tax rates that properties and hence neighbourhoods would face under a **continuous proportional system**. The purples and dark blues show that we estimate that there would be substantial falls in average gross relative tax rates in many of the more deprived parts of Glasgow and its environs – the east end and inner south side of Glasgow, Airdrie, Coatbridge, parts of Cumbernauld, Motherwell and Wishaw, as well as the urban parts of Inverclyde and virtually all of West Dunbartonshire. The yellows and light greens indicate substantial estimated increases in gross relative tax rates for the west end and outer south side of Glasgow, most of East Dunbartonshire and East Renfrewshire, and the more rural areas of Renfrewshire and Inverclyde – more affluent areas with higher average property values.

The equivalent maps for the **12-band** and **14-band systems** in Table B.5 in the accompanying Excel workbook show that the estimated impacts for these reforms would lie between those under a pure revaluation and a continuous proportional system.

Impacts by neighbourhood characteristics

The impacts of the reforms would differ systematically by types of neighbourhoods. Table 3.3 below shows the average gross relative tax rates for the current system and estimates for each modelled reform by the deprivation level and urban/rural classification of each data zone, as well as for island communities.

Panel (a) of the table shows clearly how under the current system, the average gross relative tax rate for properties in the most deprived tenth of data zones (0.768, or just below a Band B) is a little over half that for the least deprived tenth of data zones (1.414, or between a Band E and F). We estimate that a **pure revaluation** would make little difference to these averages – slightly reducing it for the most deprived (to 0.755) and increasing it for the most deprived (1.443) reflecting the fact that we estimate that values have risen somewhat less-than-average in the most deprived areas and somewhat more-than-average in the least deprived areas since 1991. In contrast, we estimate that a **continuous proportional system** would see substantial changes, reducing the average gross relative tax rate for properties in the most deprived areas to 0.518 – a reduction of around a third compared to the current average. At the other end of the scale, the average would increase to 1.869 for the least deprived tenth of data zones – an increase of almost a third compared to the current average. The other systems lie between these two benchmark reforms. For example, we estimate that the **12-band and 14-band less regressive systems** would reduce the average gross relative tax rate for properties in the most deprived tenth of data zones to around the level of a current Band A property (0.686 and 0.659, respectively). They are estimated to increase the average gross relative tax rate for the least deprived tenth of areas to around the level of a current Band F property (1.620 and 1.614, respectively). These reforms therefore move between one-third and one-half of the way towards outcomes under the continuous proportional system.

Panel (b) shows that under the current system, it is ‘accessible rural’ areas – that is settlements with fewer than 3,000 people that are within a 30-minute drive time of a settlement of 10,000 or more – that face the highest gross relative tax rates (1.208). Very remote small towns – that is settlements with between 3,000 and 10,000 people at least a 1-hour drive from a settlement of 10,000 or more – that face the lowest gross relative tax rates (0.888). Under a **pure revaluation**, we estimate that these two types of areas would still face the highest and lowest average relative tax rates, respectively. We estimate that the most notable changes would be for very remote rural areas, with an increase in average gross relative tax rate (from 0.996 to 1.065) and other urban areas – that is settlements from 10,000 to 125,000 – with a decrease in average gross relative tax rate (from 0.956 to 0.924). The modest estimated increase in the average gross relative tax rate for large urban areas reflects the aforementioned increase for Edinburgh City (and in turn the Edinburgh urban area), partially offset by a decline for Aberdeen urban area.

Making council tax less regressive is estimated to further increase the average gross relative tax rate faced by properties in rural areas (especially accessible rural areas), and decrease them for other urban areas and small towns. This reflects the above-average and below-average estimated values in rural areas versus towns. We estimate that the increase in average gross relative tax rate under less regressive systems is driven by the Edinburgh urban area, with the Aberdeen urban area and Dundee urban area seeing decreases in average gross relative tax rates that partially offset this.

The final row of the table shows that we estimate that island communities would see an increase in average gross relative tax rate under all modelled reforms. This is driven by the revaluation effect and the fact that property values have increased by more than average on Scottish islands overall (especially in Orkney Islands). Our estimates suggest that making council tax less regressive, conditional on revaluation, has little effect on the average relative tax rate faced by properties in the islands (although it would significantly affect the tax rates faced by individual properties in the islands, as elsewhere in Scotland).

Table 3.3. Average estimated relative tax rate by data zone type

(a) by data zone deprivation

Deprivation decile	Current	Pure Reval	12-band Diff	12-band LR	14-band	Continuous Proportional
Most deprived	0.768	0.755	0.723	0.686	0.659	0.518
2nd	0.799	0.79	0.769	0.73	0.71	0.595
3rd	0.836	0.832	0.817	0.781	0.768	0.675
4th	0.887	0.892	0.886	0.858	0.852	0.79
5th	0.954	0.959	0.959	0.941	0.942	0.905
6th	1.039	1.055	1.066	1.069	1.075	1.079
7th	1.113	1.123	1.14	1.158	1.167	1.204
8th	1.207	1.198	1.222	1.257	1.268	1.33
9th	1.285	1.257	1.288	1.337	1.35	1.444
Least deprived	1.413	1.443	1.508	1.62	1.614	1.871

(b) by data zone rural/urban classification

Rural/urban classification	Current	Pure Reval	12-band Diff	12-band LR	14-band	Continuous Proportional
Large urban area	1.002	1.024	1.032	1.041	1.034	1.044
Other urban area	0.956	0.924	0.918	0.9	0.893	0.837
Accessible small town	0.985	0.965	0.963	0.953	0.95	0.911
Remote small town	0.957	0.95	0.948	0.937	0.932	0.899
Very remote small town	0.888	0.9	0.892	0.868	0.863	0.798
Accessible rural	1.208	1.201	1.226	1.265	1.27	1.336
Remote rural	1.11	1.123	1.137	1.16	1.162	1.191
Very remote rural	0.996	1.065	1.077	1.079	1.088	1.096
Island communities*	0.92	0.999	1.004	0.993	0.999	0.978

Note: *We present averages for Island communities but these are not part of the rural/urban classification, hence these data zones also fall into one of the other categories. Deprivation is based on the overall Scottish Index of Multiple Deprivation 2020 score.

Source: Source: Authors' calculations using data from the Scottish Assessors, Registers of Scotland, Energy Performance Certificates, Scottish IMD Statistics and National Records of Scotland urban/rural classification and island postcode look-up.

4. Impacts across households

This section examines the estimated impacts of revaluation and reform across different households.

We begin by examining the proportion of households that we estimate would see bills reduced, increased or little changed across Scotland as a whole – we define increases and reductions as changes of £50 or more per year, and little change as a change of less than £50 per year. We then consider how average impacts vary across households with different incomes and ages of household members. Other breakdowns can be found in the accompanying Excel workbook.

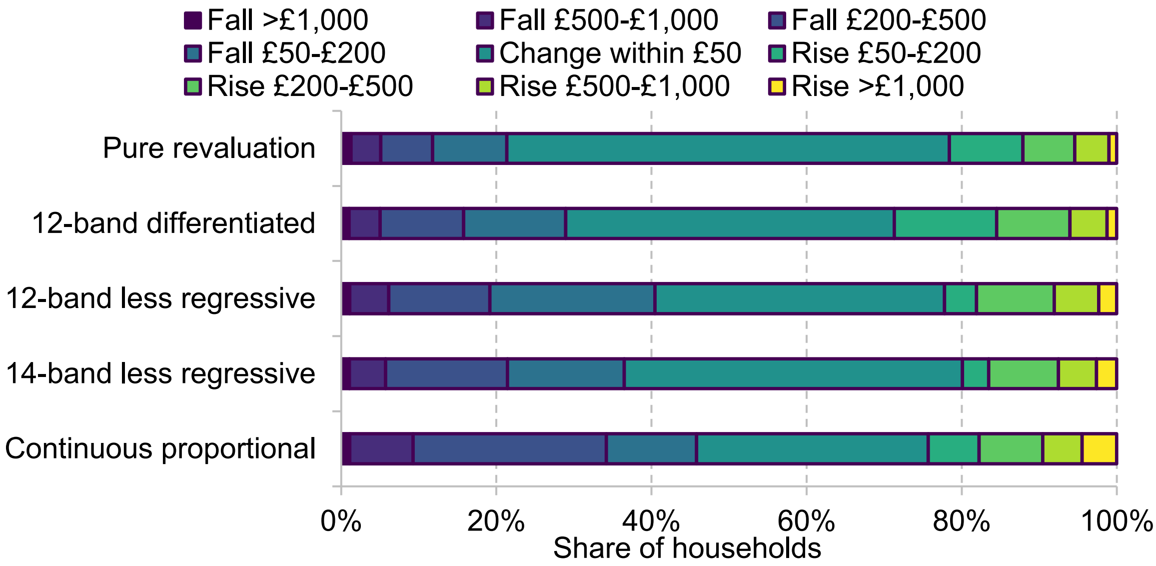
As discussed in Section 2, and in contrast to Section 3, here we model estimated changes in the council tax bills that households would face (rather than just the tax rates that apply to their properties relative to Band D). In doing this we account for the single person discount, students' exemptions and means-tested CTRS, to consider the effects on their actual net council tax bills. As discussed earlier, all reforms are modelled on a revenue-neutral basis, and we assume that, in approximate terms, grant funding would be fully redistributed across councils to account for changes in their tax base. Alternative assumptions on grant funding would change the impacts on groups shown here.

4.1 Numbers seeing bills rise or fall

Figure 4.1 shows, for each of the reform systems we model, our estimates of the share of households seeing reductions or increases of various sizes in their net council tax bills. Figure 4.2 repeats the analysis but expresses estimated changes in net bills as a percentage of households' disposable income (rather than in cash terms) to give a sense of how important the changes are relative to households' budgets.

The top bar in Figure 4.1 shows our estimates that under a **pure revaluation** just over a fifth (21%) of households would see a reduction in net bill of £50 a year or more, a similar number (22%) would see an increase of £50 a year or more, while over half (57%) would see little change. We estimate that most increases and decreases would be between £50 and £500 a year, reflecting properties moving up or down one band. The group of households seeing little change in their council tax bill would include those living in properties that remain in the same band, as well as households in receipt of CTRS or exempt from council tax.

Figure 4.1. Distribution of estimated cash changes in annual net council tax bill



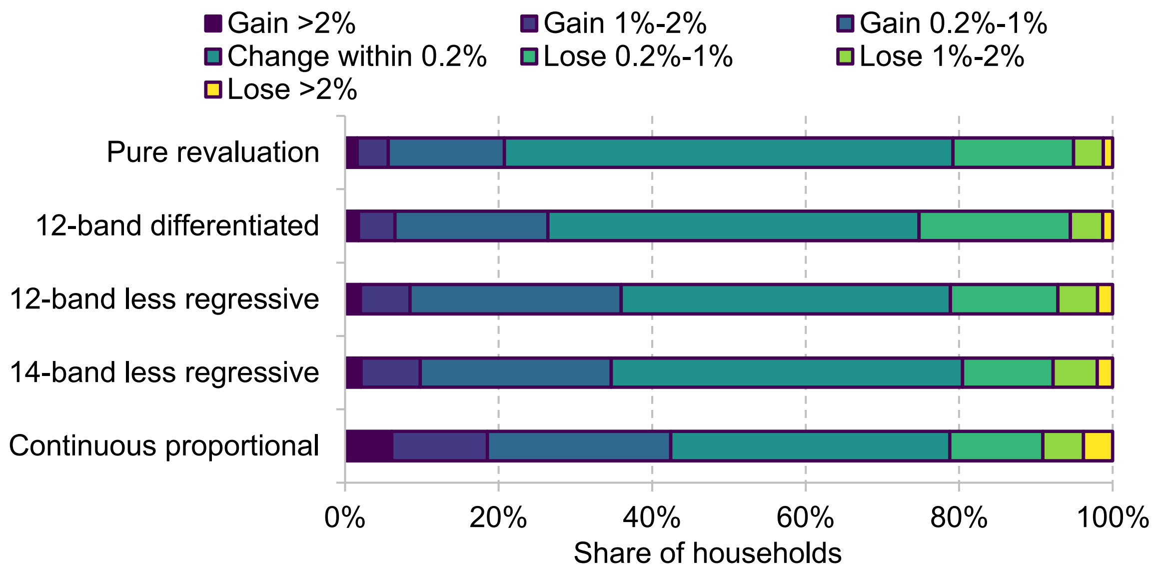
Note: Assumes full take-up of CTRS.

Source: Authors' calculations using Understanding Society waves 8-10, 14 and TAXBEN, the IFS tax and benefit microsimulation model.

We estimate that the **12-band differentiated** system would increase the share of households seeing both decreases (29%) and increases (29%) in net bills as new bands and changes in the tax rates applied to bands reduce the number of households seeing no change in their gross bills.

Under less regressive systems, we estimate that a greater fraction of households would face larger changes in bills, with more of these households seeing a reduction in net bill than an increase. For example, under the **12-band less regressive system** we estimate that 40% of households would see a reduction in gross bill of less than £50 a year, compared with 22% seeing an increase of £50 a year or more. Since we assume that all reforms would be implemented in a revenue-neutral manner, the estimated average increase among those facing an increase is larger than the estimated average decrease among the (more numerous) group seeing a decrease. For example, while we estimate that 6% of households would see a reduction in net bill of £500 or more, we estimate that 8% would see an increase of £500 or more.

Figure 4.2. Distribution of estimated percentage changes in net household income



Note: Assumes full take-up of CTRS. Incomes are measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 8-10, 14 and TAXBEN, the IFS tax and benefit microsimulation model.

Turning to Figure 4.2, the top two rows show that when measured as a percentage of household income, the shares of properties we estimate facing increases and decreases in net bill of a given magnitude are fairly similar. For example, under a **pure revaluation**, we estimate around 6% of households face a reduction in net bill equivalent to 1% of net household income or more, while 5% face an increase of that size. Estimates for the less regressive systems show that there would be more large reductions than large increases when measured as a percentage of household income, despite there being more large cash-terms increases. This is because, as we shall see below, the households in our data seeing reductions in their bills under less regressive systems tend to have lower incomes than those seeing increases in bills. For example, we estimate that under a **continuous proportional system**, while 19% of households would see a reduction in bill equivalent to 1% or more of their net household income, only 9% would see an increase of 1% or more.

4.2 Average impacts by household type

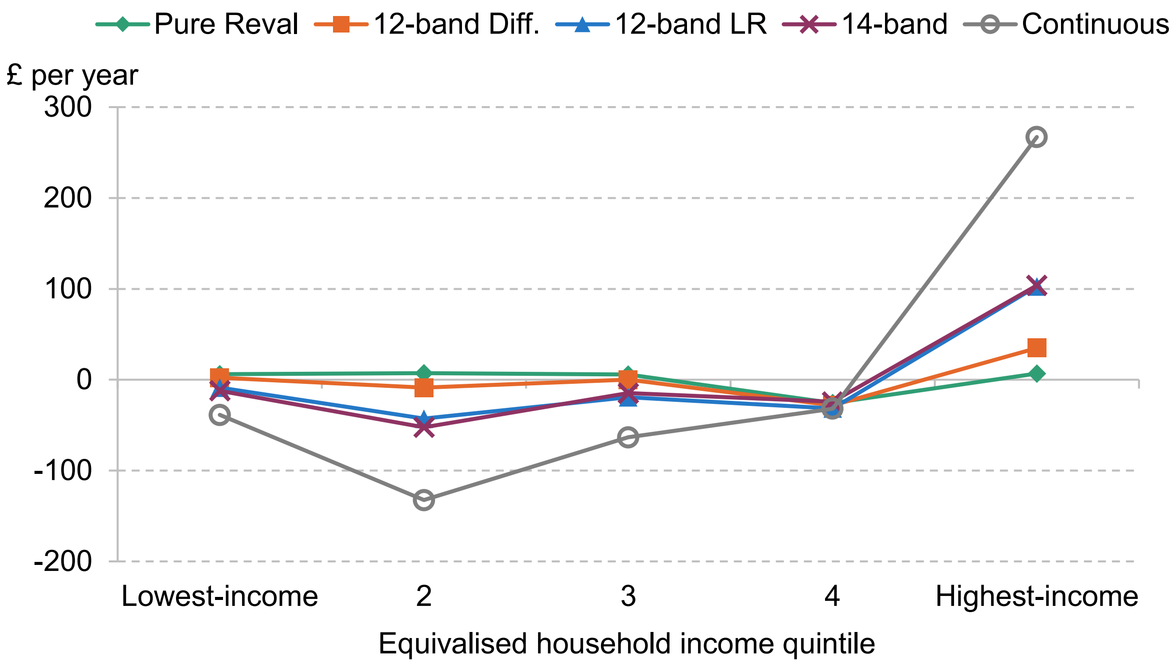
As indicated above, different types of households would be expected to face systematically different changes in bills under different reform systems.

Household income

Figure 4.3 shows the estimated average cash change in bill for households with different levels of 'equivalised' net income[8] (average changes measured as a percentage of household net income can be found in the accompanying Excel workbook).

The green line shows estimated effects of a **pure revaluation**. It shows, on average, little change in average net bill for any of the income groups. This suggests that while richer households live in more valuable properties, they do not live in properties that have increased in value at a faster rate than average since 1991, the year current council tax bands are based on.

Figure 4.3. Estimated average change in net council tax bill, by quintile of household income



Note: The analysis assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale. Pure reval = pure revaluation; 12-band diff. = 12-band differentiated; 12-band LR = 12-band less regressive; 14-band = 14-band less regressive; continuous = continuous proportional.

Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

[8] Equivalisation adjusts incomes to account for differences in the number and ages of household members to better reflect the living standards of different households.

The grey line shows the estimated effect of a **continuous proportional system**. We estimate that this reform would increase net bills for households in the highest quintile (fifth) of the income distribution by an average of £267 per year, and reduce average bills for households across the rest of the distribution. This reflects the fact that tax rates would increase for high value properties and fall for low- and mid-value properties under a proportional council tax. The biggest estimated falls in net bill would be for households in the second-lowest income quintile (an average of £132 per year) rather than those in the lowest income quintile (£39 per year). This partly reflects the impact of means-tested CTRS, which means many of the lowest-income households do not pay council tax and so are not affected by increases or decreases in council tax.

The orange line shows that the estimated impact of the **12-band differentiated system** is similar to the pure revaluation, albeit with slightly higher bills for the top fifth of the income distribution, allowing for very slightly lower bills for low- and middle-income households.

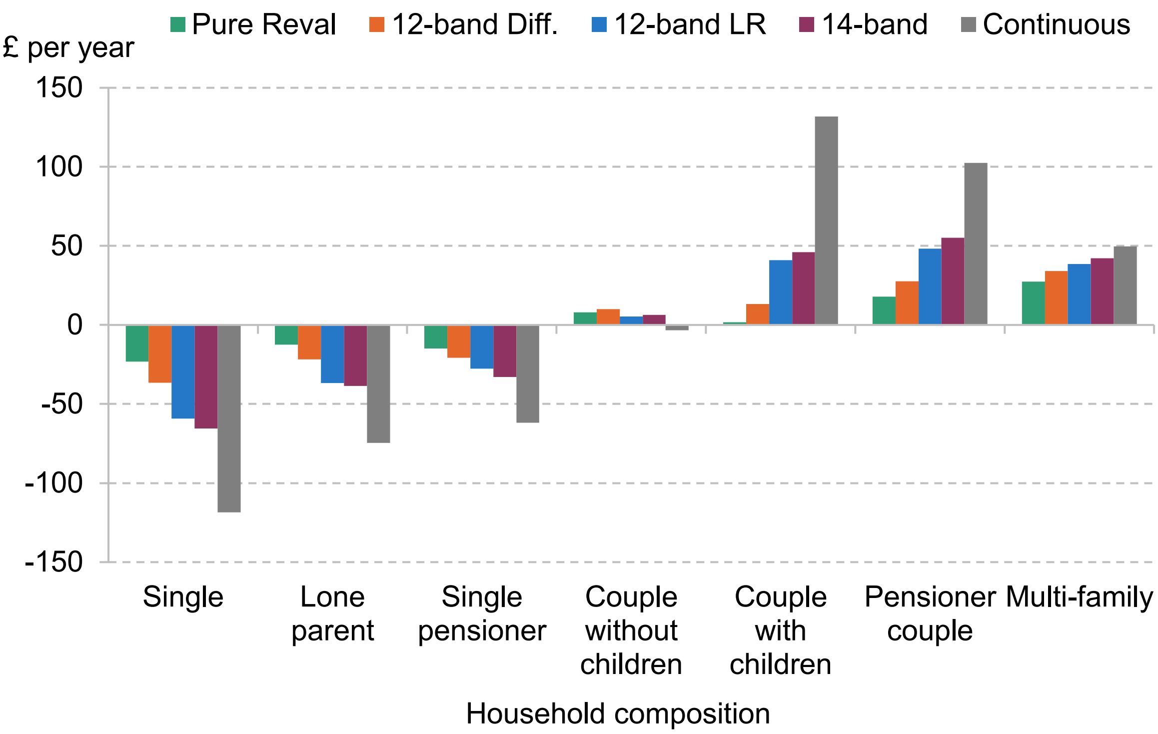
The overlapping blue and purple lines show that the estimated effects of the **12-band less regressive** and **14-band less regressive** systems would be very similar. We estimate that average net bills would increase by around £100 a year for households in the top fifth of the income distribution and fall for low- and middle-income households (peaking at £40–50 a year for those in the second-lowest income quintile).

Household composition

Figure 4.4 shows the estimated average change in bill, in cash terms, for households with different compositions.

The green bars show that estimated changes in average tax bills would be small under a **pure revaluation**. The grey bars show much bigger estimated changes under a **continuous proportional system**, with households containing only one adult estimated to see reductions in bills, and households containing two or more adults estimated to see increases in bills. For example, we estimate households consisting of a single working-age adult without children would see a fall in average bill of £119, while working-age couples with children would see an increase in average bill of £132. This reflects the fact that in our data single adults typically live in smaller, lower-value properties, while couples with children live in larger, higher-value properties. The yellow, blue and purple lines show that estimated impacts of the **12-** and **14-band systems** that we model would lie between the estimated impacts of a pure revaluation and proportional system.

Figure 4.4. Estimated average change in net council tax bill, by household composition



Note: Assumes full take-up of CTRS. Pensioner households are those that include at least one individual aged at or above state pension age (65). The multi-family category includes all households containing more than one family. Pure reval = pure revaluation; 12-band diff. = 12-band differentiated; 12-band LR = 12-band less regressive; 14-band = 14-band less regressive; continuous = continuous proportional.

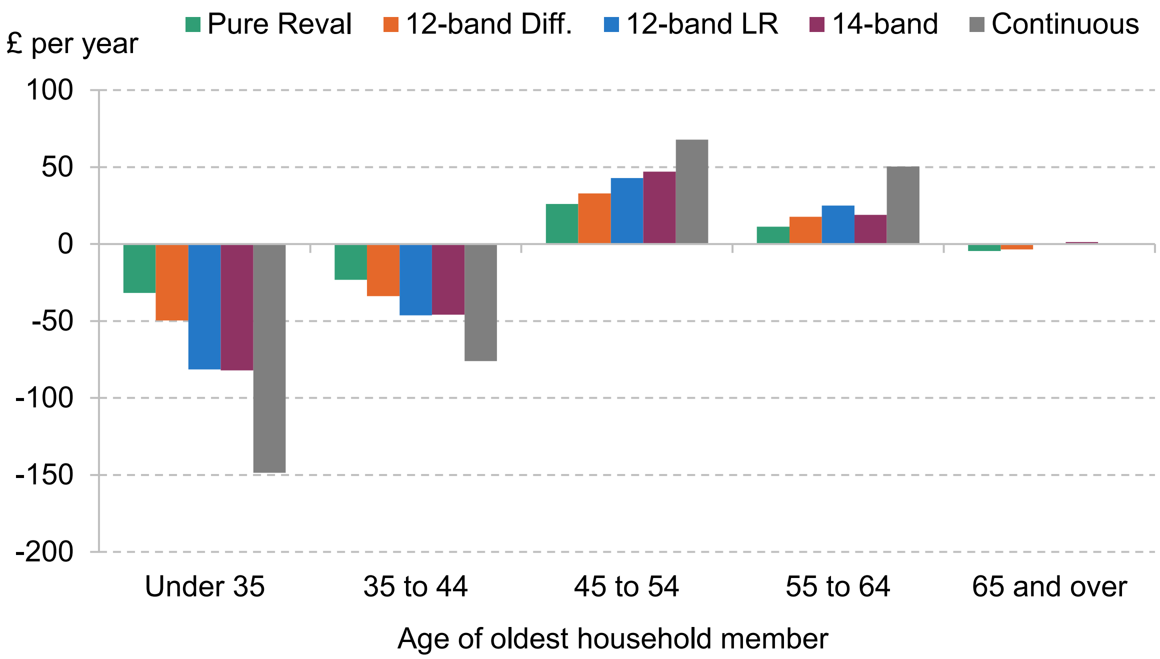
Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

Age of oldest household member

Figure 4.5 repeats this analysis by age of the oldest household member. As above, average effects are estimated to be modest for a **pure revaluation** but much larger for a continuous proportional system, with the **12-** and **14-band** systems lying in between.

For example, under the **12-** and **14-band less regressive** systems, we estimate that average net bills would fall by around £80 per year for households where the oldest member is aged 35 or below, and around £45 per year for households where the oldest member is aged 35 to 44. We estimate that average bills would increase by around £45 per year for households where the oldest member is aged 45 to 54. We estimate that average bills would be little changed for households where the oldest member is 65 or over, reflecting the falls among single pensioners and rises among pensioner couples shown in Figure 4.4.

Figure 4.5. Estimated average change in net council tax bill, by age of oldest household member



Note: Assumes full take-up of CTRS. Pure reval = pure revaluation; 12-band diff. = 12-band differentiated; 12-band LR = 12-band less regressive; 14-band = 14-band less regressive; continuous = continuous proportional.

Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

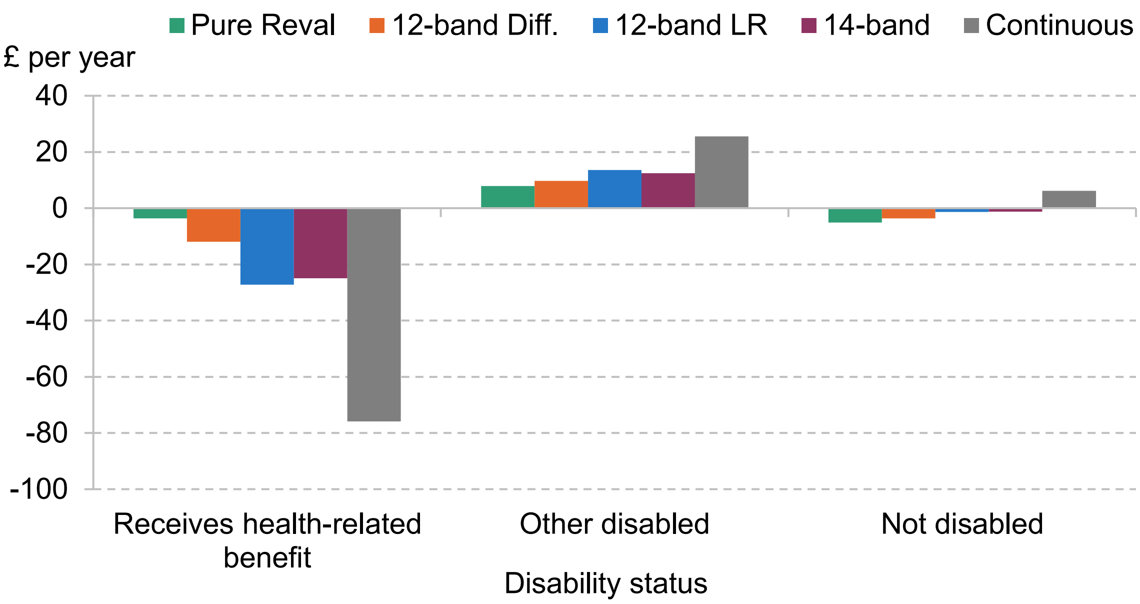
Disability status

We also estimate how the impact of council tax reforms differs by disability status of household members (adults and children). To do this, we group households into three categories: households receiving health-related benefits, other disabled households, and households with no disabled member. The main health-related benefits we include are adult disability payment, child disability payment, pension age disability payment, personal independence payment, disability living allowance and employment and support allowance.[9] 'Other disabled households' includes households where any adult reports having a longstanding illness or disability in the survey, or if any child has a limiting longstanding illness.

[9] Other health-related benefits we count are incapacity benefit, severe disablement allowance, war disablement allowance, industrial injury disablement allowance and other disability-related benefit or pay.

Figure 4.6 shows estimated impacts by disability status. As with other demographic breakdowns, we estimate that a **pure revaluation** would have only a modest impact on average bills for the different groups. In contrast, we estimate that a **continuous proportional system** would see a reduction in average net bills of around £75 a year for households receiving health and disability-related benefits, which translates into an estimated fall of 12% of their current average net bill (a relatively high percentage reduction because many in this group are entitled to the means-tested CTRS and therefore have a zero or much-reduced council tax bill). We estimate that other households containing a person with disabilities would see an increase in average bill of around £25 per year under a **continuous proportional system**, reflecting the fact that this group contains a relatively high share of older working-age adults (who, all other things being equal, our analysis finds tend to live in the most valuable properties).

Figure 4.6. Estimated average change in net council tax bill, by disability status



Note: Assumes full take-up of CTRS. Households classified as 'receives a health-related benefit' or as 'other disabled' if any household member falls into that category. See text for definitions of those terms. Pure reval = pure revaluation; 12-band diff. = 12-band differentiated; 12-band LR = 12-band less regressive; 14-band = 14-band less regressive; continuous = continuous proportional.

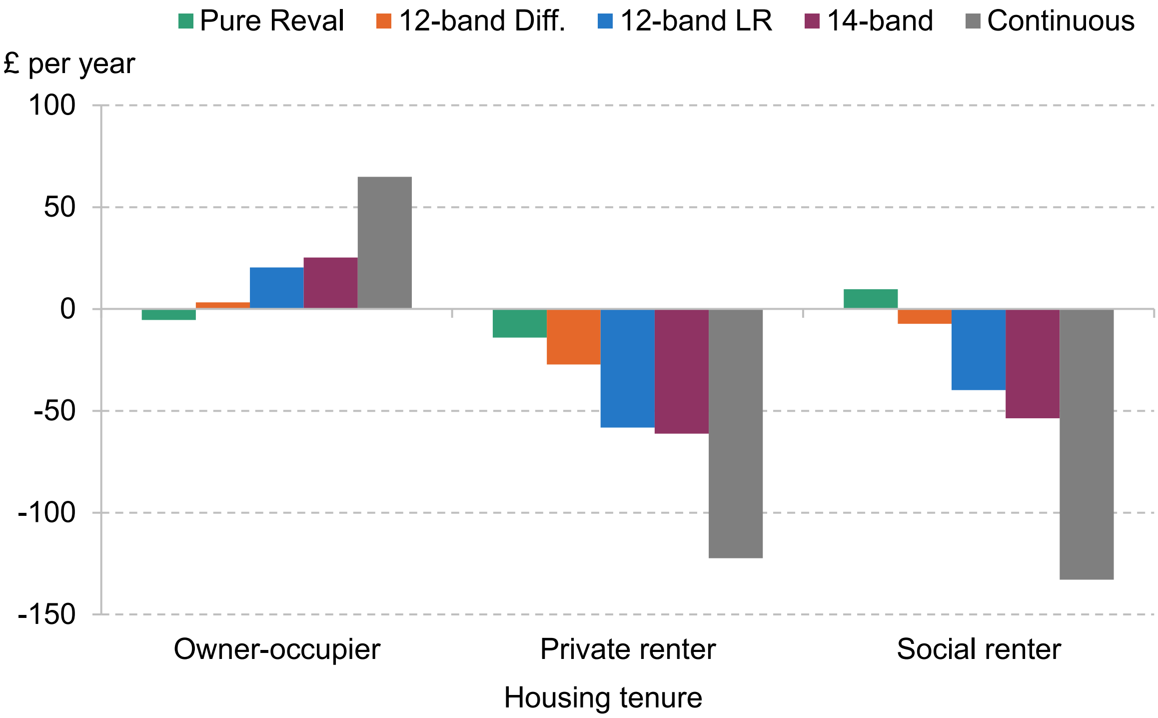
Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

The 12- and 14- band systems lie in between these two benchmark systems, with households receiving health and disability-related benefits estimated to see a fall in average net bill of around £25 per year under both the **12-band** and **14-band less regressive systems**.

Housing tenure

Figure 4.7 shows estimated impacts by housing tenure. Again, we estimate that a **pure revaluation** would have little impact on average bills by tenure type. We estimate that a **continuous proportional** system would lead to large falls in average net bills for private (£122) and social (£133) renters, the latter representing a 22% reduction from current estimated levels. This would be offset by an average increase for owner-occupiers, estimated at £65 per year. This reflects the higher values of owner-occupied properties compared to both privately and socially rented properties.

Figure 4.7. Estimated average change in net council tax bill, by housing tenure



Note: Assumes full take-up of CTRS. Pure reval = pure revaluation; 12-band diff. = 12-band differentiated; 12-band LR = 12-band less regressive; 14-band = 14-band less regressive; continuous = continuous proportional.

Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

We estimate that the **12-band** and **14-band less regressive systems** would see reductions in average bills for renters of between £40 and £60 a year, with estimated increases of around £20-25 for owner-occupiers.

Ethnic group

We estimated impacts separately for households by aggregated ethnic groups. Due to the small sample sizes for some ethnic groups in the Understanding Society survey data, it was not possible to undertake analysis across the full range of ethnic groups included in the data. Consequently, we have aggregated the data into the following two categories to allow for analysis: a) 'white' – which we categorise as households where all residents belong to one or more of the following ethnic groups listed in the Understanding Society survey: White: English, Welsh, Scottish, Northern Irish or British; Irish; Gypsy or Irish Traveller; and Other White; and b) 'all other ethnic groups' – which we categorise as households where at least one resident belongs to one or more of the following ethnic groups listed in the Understanding Society survey: White and Black Caribbean; White and Black African; White and Asian; Any other mixed background; Indian; Pakistani; Bangladeshi; Chinese; Any other Asian background; Caribbean; African; Any other black background; Arab; Any other ethnic group. Even following this aggregation, the sample for 'all other ethnic groups' in the data is still a relatively small fraction of the overall sample (4% of households), and so estimates should be treated with caution.

Bearing this in mind, we estimate that households where all residents belong to one or more of the 'white' ethnic groups in the Understanding Society data (see above for full list) would see little change in average net bills under the modelled reforms. We estimate that households where at least one resident belongs to one or more of the 'all other ethnic groups' listed in the Understanding Society data (see above for full list) would see increases in average net bills, although these would be smaller under a **continuous proportional system** (£28 per year) than under the other systems (£50 to £65). This suggests that people from ethnic minority backgrounds live in properties that have increased in value by more than average since 1991, but which remain below average in value.

5. Rents and property values

This section of the report considers potential impacts on rents and property values. We begin by explaining the evidence – theoretical and empirical – on how property taxes end up leading to changes in rents and property values. We then examine the potential impacts of the different modelled reform options on property values in Scotland, including breakdowns by property value and the household income of owners.

5.1 Evidence on impacts on rents and values

Because rents and property prices are determined by the supply of and demand for housing, we would expect changes in council tax bills to be reflected over time in properties' market rents and values: changing the cost of occupying property changes the demand for it. Holding other factors fixed (such as the level of local public expenditure), we would expect market rents and prices to rise for properties that see a reduction in their council tax bills as a result of revaluation and reform, and fall for properties that see an increase in their council tax bills. The reflection of future tax bills in current property prices is a process known as capitalisation.

Economic theory suggests that tax changes will be most strongly reflected in rents and property values where housing supply is relatively unresponsive to property values (Oates, 1969), as it is in the UK (Caldera Sánchez and Johansson, 2011; Drayton, Levell and Sturrock, 2024). This is because in these circumstances, any changes in property supply in response to changes in prices will be smaller, and so offset less of the initial change in property values. In places where council tax bills were reduced, for example, the reduced cost of occupying housing would push up demand and therefore property prices; those higher prices would strengthen the incentive for developers to build in that area, but the evidence suggests that any resulting increase in the supply of properties would be relatively small, and therefore insufficient to bring values and rents back down.

Empirical studies from the UK also find that for a given level of taxation, expenditure on, and the quality of, local public services – the corollary to local taxes – is highly capitalised into property prices (Hilber, Lyytikäinen and Vermeulen, 2011; Gibbons and Machin, 2008). Many studies on other countries have also found that property taxes are reflected almost pound-for-pound in local rents and property values (Capozza, Green and Hendershott, 1996; Palmon and Smith, 1998; Hilber, 2015; Høj, Jørgensen and Schou, 2018).There is therefore strong empirical backing for the theoretical prediction that property prices would be affected by changes to property taxes such as council tax.

It is important to note that the theory of capitalisation implies that owner-occupiers whose bills rise do not suffer a 'double hit' from both the increase in their council tax bill and the fall in the value of their property (Adam et al, 2020a, 2020b). On the one hand, if they continue living in the property indefinitely, they lose or gain as a result of the change in their tax bill by paying a higher or lower bill than in the absence of the reform. On the other hand, if they sell and move immediately, they lose or gain as a result of the change in their property value, but no longer have to pay council tax on the property. They pay the higher/lower council tax only for as long as they live in the property; they crystallise the decrease/increase in property value only when they sell it. An owner's loss from a reduced property value is in effect deferred until it is crystallised when the property is sold; deferral of that loss is valuable, and the additional stream of council tax they must pay until they sell it can be thought of as the 'price' paid for that deferral.

The total value of their loss is the same whether they sell immediately or only in the distant future; all that changes is how much of their loss is experienced in changed council tax payments and how much in a more/less distant fall in the proceeds from sale – (obviously the same is true for a rise in value caused by reduced council tax bills). However, capitalisation does mean that it is the owner of a property at the time of revaluation and reform who loses or gains: future purchasers will pay less for the property if the tax bill associated with it is higher, and vice versa.

In the case of rental property, the immediate impact of a change in council tax liability will be felt by the tenants who have to pay it (unless the rental contract specifies that the landlord will pay the council tax). Over time, rents will adjust as described above, passing the impact onto landlords; these adjustments would typically be associated with renewal of the tenancy or a change of tenants, though the dynamics of market rent adjustments can be more complicated than that. Again, however, the theory of capitalisation implies that the value of the landlord's property will change immediately, reflecting the change in expected future rental income associated with the property (or the corresponding change in council tax liability if the property were to be bought for owner-occupation).

5.2 Potential impacts of reform options

We consider the potential impacts on property values assuming changes in council tax are fully capitalised into values. However, how large these changes would be is uncertain, depending not just on how council tax bills change, but also on how people value changes in expected future tax bills. The more they value those changes (that is, the less they 'discount' changes in future bills), the larger the impact any given change in council tax bills will have on property values today. Because there is uncertainty about just how much people discount the future, we therefore estimate property value impacts under three different scenarios for the market 'discount rate'. Our central scenario assumes a 3% real discount rate – meaning, approximately, that after adjusting for inflation, £1 in a year's time is valued at around 97p today – broadly consistent with long-term real interest rates on UK government borrowing, reflecting the rate at which market participants value additional money at different points in time. Low and high scenarios assume 1% and 5% real discount rates, respectively, reflecting the fact that people may value future tax payments more or less than under our central scenario.

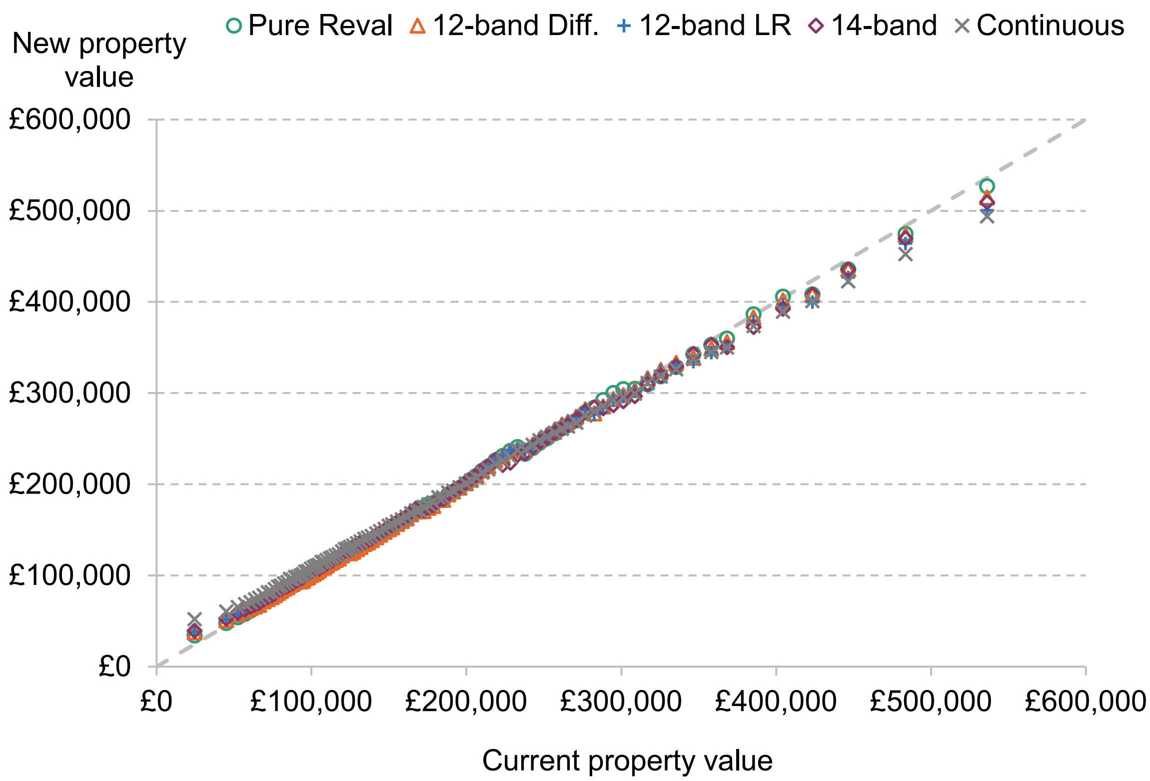
Effects by property value

Figure 5.1 shows the estimated effects on property values of the different reform options assuming a 3% real discount rate. The horizontal axis shows Q3 2024 property values, while the vertical axis shows the estimated values after accounting for capitalisation of changes in tax bills into property values.

Across the bulk of the property value distribution, estimated changes in values would be relatively modest for the **pure revaluation** and **12-band** and **14-band** systems modelled. For example, at the 25th percentile of the distribution (around £100,000), estimated values would increase by around 1% under both a **pure revaluation** and the **12-band differentiated system**, and around 3–4% under the **12-band** and **14-band less regressive systems**.[10] Estimated values would increase a little because, on average, properties at this point in the distribution would be estimated to see a fall in their net tax bill, especially under less regressive systems. For median-value properties (around £155,000), estimated values increase by an average of 0–1% under these systems, reflecting small falls in average net tax bills. At the 75th percentile (around £250,000), estimated values change little, reflecting little change in average net tax bills.

[10] Note that the points in the property value distribution given here don't precisely match those in the accompanying Excel workbook, as the property value distributions estimated in the geographical and household-level modelling do not fully align.

Figure 5.1. Estimated effect of reforms on property values, 3% real discount rate



Note: The figure shows 100 groups of current property values. It omits the two highest groups with values of around £627,456 and £997,395. Pure reval = pure revaluation; 12-band diff. = 12-band differentiated; 12-band LR = 12-band less regressive; 14-band = 14-band less regressive; continuous = continuous proportional.

Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

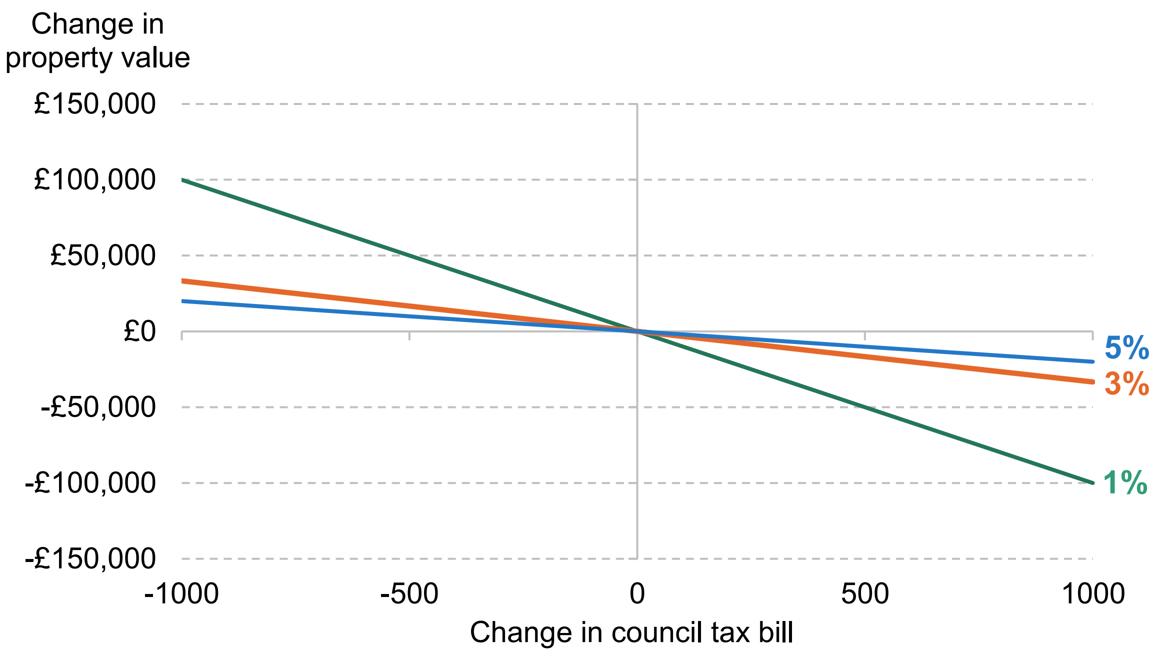
We estimate that changes would be larger at the very bottom and top of the distribution of property values. For example, for properties worth £60,000, while a **pure revaluation** would be expected to have little impact on values (most such properties are already in Band A), the **12-band systems** would cause an estimated increase in value of around 6%, and the **14-band system** an estimated increase of around 8%. Conversely, we estimate that a property worth £500,000 would fall in value by around 2% under a **pure revaluation** and 3–5% under the **12-band** and **14-band** systems, as average net council tax bills increase.

Changes would also be larger under a **continuous proportional system**, reflecting the larger estimated decreases and increases in net tax bills under this system. For example, if fully capitalised at a discount rate of 3%, we estimate that properties worth £60,000 would see an increase in value averaging 16%, while those worth £500,000 would see a decrease in value averaging 7%.

Figure 5.2 shows that the change in property values driven by a given change in tax bill depends crucially on the discount rate assumed. Changes under a 1% discount rate would be three times as large as under our baseline assumption of a 3% discount rate. For example, a £100 reduction in annual net council tax bill would increase the value of a property by £10,000 if discounted at 1% a year, versus £3,300 if discounted at 3%. Conversely, a 5% discount rate would imply changes in property values 40% smaller than with a 3% discount rate: just a £2,000 change in property value for the same £100 change in annual net council tax bill, for instance.

This means the aforementioned figures can be multiplied by 3 or by 0.6 to calculate the average estimated change in values under a 1% or 5% real discount rate, respectively. Figure 5.3 illustrates this for the 12-band less regressive system. For example, we estimate that properties currently worth £60,000 would on average rise in value by 18.5% if the discount rate is 1%, rise by 6.2% if the discount rate is 3%, or rise by 3.7% if the discount rate is 5%. We estimate that properties worth £169,000 would on average rise in value by 3.9% with a 1% discount rate, by 1.3% with a 3% discount rate, or by 0.8% with a 5% discount rate. We estimate that properties worth £500,000 would on average fall in value by 15.7% with a 1% discount rate, by 5.2% with a 3% discount rate and by 3.1% with a 5% discount rate. Thus, while evidence is strongly suggestive of an impact on property values, there is uncertainty about the scale of these impacts.

Figure 5.2. Estimated changes in property value due to capitalisation of changes in council tax bills given different assumptions about discount rates



Source: Authors’ calculations.

Figure 5.3. Estimated effect of 12-band less regressive reform on property values under different assumptions about the real discount rate

Note: The figure shows 100 groups of current property values. It omits the two highest groups with values of around £627,456 and £997,395.

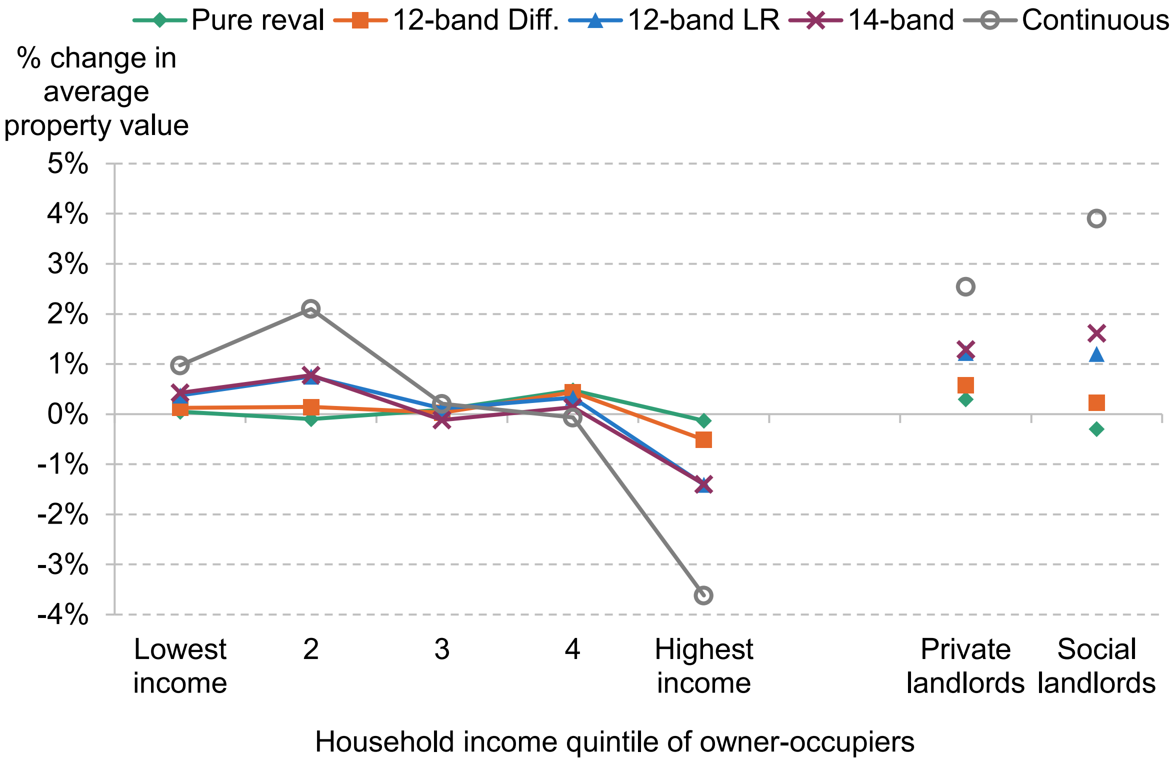
Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

Effects by household income

Because lower-income households tend to live in less valuable properties, and higher-income households tend to live in more valuable properties, average changes in property values as a result of revaluation and reform of council tax would differ systematically across the income distribution.[11]

[11] The estimated average (mean) property value for households in the lowest fifth of the income distribution is £156,000, compared to £297,000 for households in the top fifth of the income distribution.

Figure 5.4. Estimated percentage change in average property value by owner-occupiers' household income and by landlord type, 3% real discount rate



Note: Assumes full take-up of CTRS. Owner-occupier households are allocated to quintiles based on income measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale. Pure reval = pure revaluation; 12-band diff. = 12-band differentiated; 12-band LR = 12-band less regressive; 14-band = 14-band less regressive; continuous = continuous proportional.

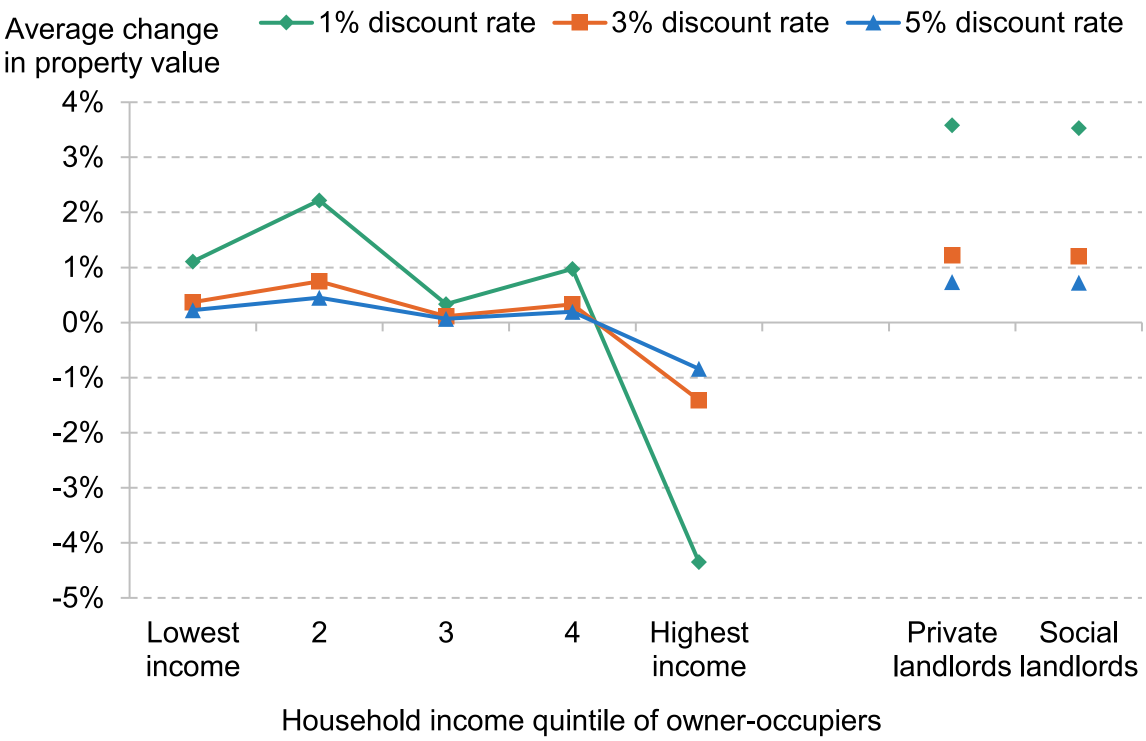
Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

Figure 5.4 shows estimated changes in average property values by household income quintile group among owner-occupiers and for rental properties, under the baseline 3% real discount rate assumption. We estimate that a **pure revaluation** and the **12-band differentiated system** would have little effect on average property values across the income distribution – reflecting the fact that it would have little effect on average bills across the income distribution (see Figure 4.3). In contrast, a **continuous proportional system** is estimated to increase average values for lower-income owner-occupiers (by 2% for those in second-lowest fifth of the income distribution), as well as increase the values of rental properties (2.5% for privately rented properties and 4% for social rented properties). In contrast, we estimate that average values would fall by an average of 3.6% for owner-occupiers in the top fifth of the income distribution under a **continuous proportional system**.

Estimated effects for the **12-band** and **14-band less regressive systems** would lie between the benchmark pure revaluation and continuous proportional systems. For example, we estimate that the second-lowest-income quintile of owner-occupiers would see an increase in average property values of 0.8%, and owners of private and social rental properties increases of 1.2% to 1.6%. Conversely, we estimate that average property values for owner occupiers in the top fifth of the income distribution would fall by around 1.4%.

Figure 5.5 shows how estimated effects vary depending on the real discount rate assumed. Under a 1% real discount rate, for example, we estimate that the impact of the **12-band less regressive system** would be similar to the impact of the continuous proportional system under a 3% real-discount rate, with average property values estimated to increase by around 1–2% for low-income owner-occupiers and 3–4% for rental properties, and estimated to fall by around 4% for high-income owner-occupiers. Estimated impacts under a 5% real discount rate would be much smaller.

Figure 5.5. Average estimated change in property value under 12-band less regressive system, by household income quintile, as a percentage of average property value



Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

6. Transition and mitigation

This section of the report considers the design of:

- transitional arrangements, which could be used to phase in large increases in council tax bills, and;
- mitigation measures, which could be used to address potential adverse impacts on some population groups of concern, for the longer-term.

We begin by considering the design and potential cost of transitional arrangements. We then look at a range of mitigation options for the minority of households with relatively low incomes but who live in high-value properties and would see increases in council tax under some reform options. This includes deferral schemes for owner-occupiers with relatively low income but potentially substantial property wealth, and an expansion of means-tested reductions in bills for others, including tenants, with low incomes.

6.1 Transitional arrangements

Transitional arrangements would aim to ease the introduction of a new council tax system by slowly phasing in the largest increases in tax bills, to give affected households time to prepare for the full increase they face.

The cost of phasing in increases in tax bills could be met, in part, by phasing in decreases in tax bills for those due a reduction as a result of revaluation and reform as well. This is how the transitional relief scheme for non-domestic property revaluations traditionally worked in England (Ministry of Housing, Communities and Local Government, 2016).[12] Alternatively, decreases in bills could be implemented in full immediately and transitional reliefs for those seeing large increases in bills could be funded through ring-fenced grant funding for Scottish councils. Economically, this is akin to how the transitional relief scheme for non-domestic property revaluations has previously worked in Scotland

[12] See Ministry of Housing, Communities and Local Government (2016) for the scheme in place for the 2017 non-domestic rates revaluation in England. Note that the scheme in place for the 2023 revaluation differs, phasing in bill increases but not decreases, as explained in Department for Levelling Up, Housing and Communities (2022).

(Scottish Government, 2023).[13] It was also the approach taken by the Welsh Government for funding the transitional relief scheme that accompanied the revaluation in Wales in April 2005 (Welsh Assembly Government, 2004). A third alternative would be for councils to fund such a transitional relief scheme through higher Band D council tax rates, in effect spreading the cost across all council taxpayers in proportion to their council tax bills.

A key trade-off in the design of transitional relief schemes is between the amount of temporary support given to those facing increases in bills and the cost of the scheme. To illustrate this trade-off, we have modelled two transitional relief schemes, both of which would phase in the largest bill increases over several years, but which phase in changes in bills at different paces:

- **Scheme 1:** Gross bill increases as a result of the reforms capped at the lower of 10% or £300 each year, before any annual change in council tax applied by councils (which households would continue to bear in full).
- **Scheme 2:** Gross bill increases as a result of the reforms capped at the lower of 25% or £600 each year, before any annual change in council tax applied by councils (which households would continue to bear in full).

In both cases, we assume the cap would apply to gross bills before any discounts, premiums, exemptions (and the CTRS). This means that the effective cash-terms cap for a household in receipt of the 25% single person discount, for example, would be £225 and £450 (both 25% lower than the cap on increases in the full gross bill), respectively, under schemes 1 and 2.

These schemes are merely illustrative. There are many ways a transitional relief scheme could be designed.

Figures 6.1 and 6.2 show estimates of the percentage of properties eligible for transitional relief and the cost of transitional relief, respectively, for the first four years of these schemes. The top panel of each chart is for scheme 1 and the bottom panel is for scheme 2. All estimates are only approximate, due to data

[13] Formally, the process works differently. The amount of non-domestic rates revenues that councils are required to transfer to the Scottish Government via the ‘contributable amount’ (for redistribution as part of the Local Government Finance System) is reduced by the forecast cost of transitional relief. However, economically, this is equivalent to the contributable amount being based on non-domestic rates revenues *before* transitional relief is accounted for, and the Scottish Government providing a ring-fenced grant equal to the forecast cost of transitional relief, for councils to use to cover the cost of transitional relief. See Scottish Government (2023).

limitations.[14] Results for two intermediate variants (caps of 15% or £300, and 20% or £400) can also be found in Tables B.10 and B.11 in the accompanying Excel workbook.

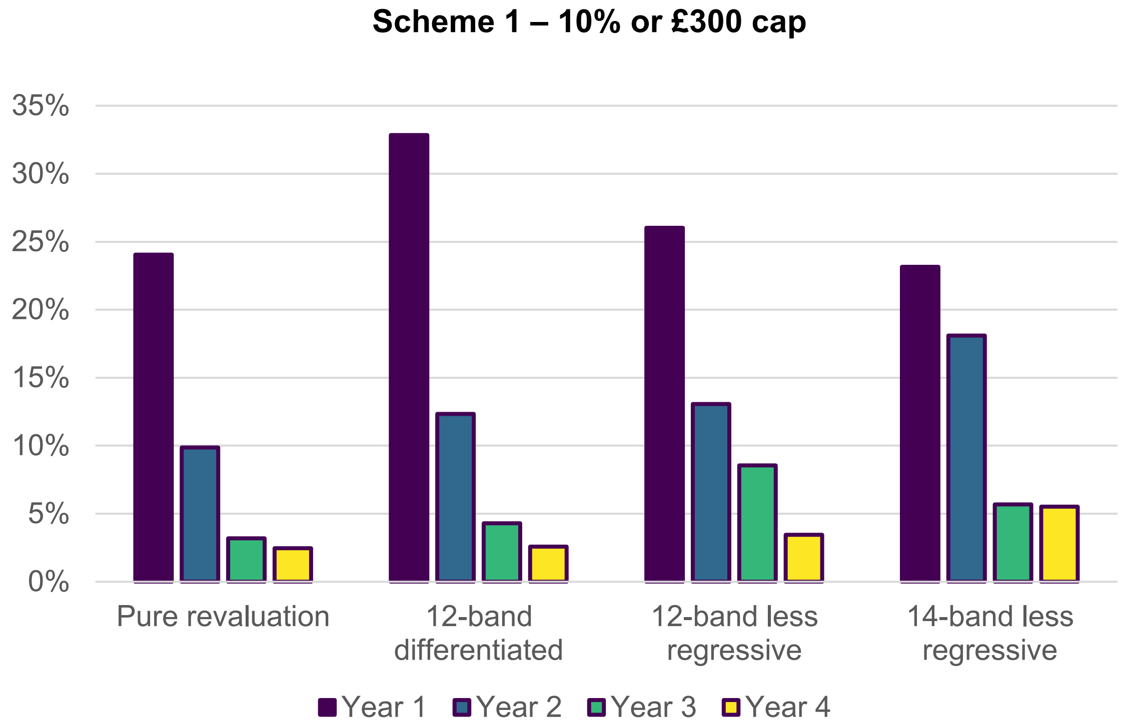
Bearing in mind these caveats, consider first **scheme 1**, which would phase in increases in bills most slowly. The 10% element of the cap would mean that under a **pure revaluation**, any property moving up a band would benefit from transitional relief in the first year (since the difference in bills between bands is always more than 10%) – an estimated 24% of all properties. We estimate that similar or larger numbers would benefit in year 1 under the **12-band** and **14-band systems**. The number of beneficiaries from transitional relief would fall over the following years as further increases brought properties up to their full bill increase. But in year 4, we estimate that 2.5% of properties would still be receiving transitional relief under a **pure revaluation** and 5.5% under the **14-band less regressive system**.

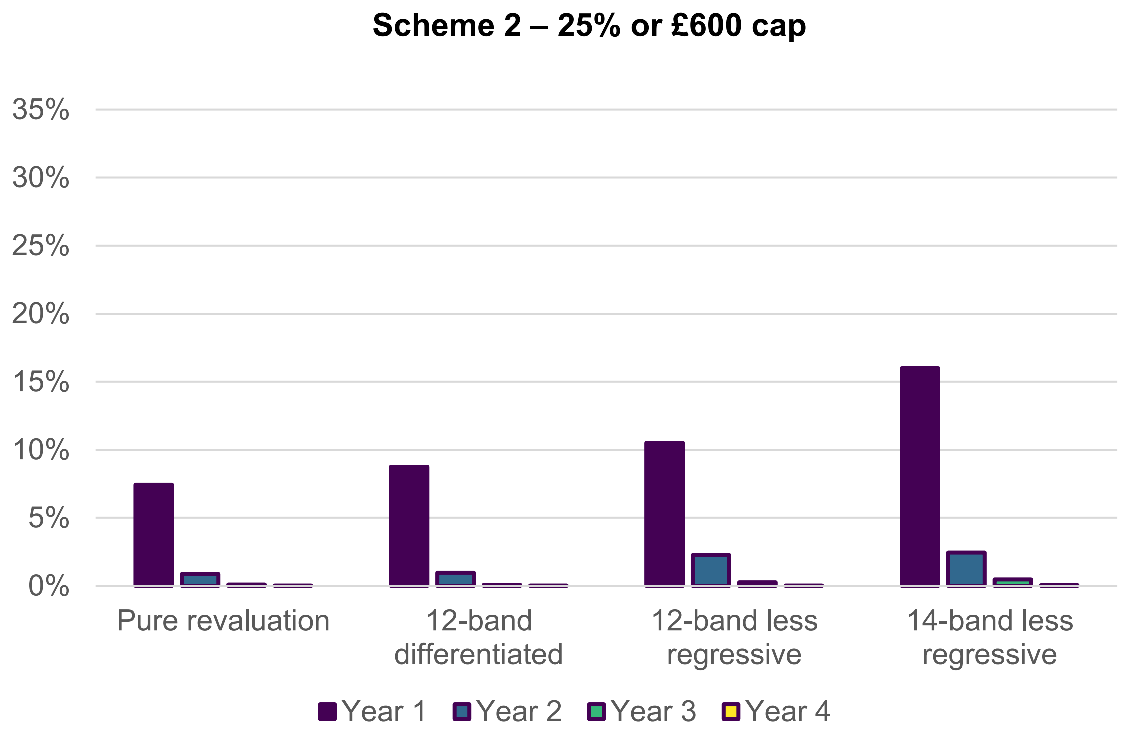
Large numbers of beneficiaries would also mean relatively high costs. Even after accounting for discounts, exemptions and CTRS, we estimate that first-year costs would vary from around £100 million for the **pure revaluation** to around £200 million for the **12-band** and **14-band less regressive systems**. Costs would be higher for the less regressive systems as these entail bigger changes in bills, especially for the highest-value properties. To put these costs in perspective, council tax revenues this year are forecast to be approximately £3,300 million, and overall Scottish council funding approximately £18,300 million.[15] We estimate that year 4 transitional relief costs would be £7 million for a **pure revaluation**, or around £25 million under the **12-band** and **14-band less regressive systems**.

[14] In particular, our geographical analysis provides the best estimates for the proportion of properties potentially eligible for transitional relief, but does not account for exemptions, discounts and the CTRS, which mean some potentially eligible properties pay a zero or reduced net bill. Therefore, to approximate the net costs of transitional relief we combine estimates of the share of properties potentially eligible and the gross cost of transitional relief from our geographical analysis, with an estimate of the ratio between net and gross cost of relief from our household-level analysis. We also model this assuming all councils set their Band D tax rate at the Scottish average of £1,543 (Scottish Government, 2025b).

[15] Forecast council tax revenues taken from Scottish Government (2025e). Overall funding figure includes forecast council tax revenue plus planned funding from the Scottish Government set out in Scottish Government (2024b).

Figure 6.1 Estimated percentage of properties eligible for transitional relief by system and year





Sources: Authors' calculations using data from Scottish Assessors, Registers of Scotland, Energy Performance Certificates, Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

Figure 6.2. Estimated cost of transitional relief scheme (£ million), by system and year

Sources: Authors' calculations using data from Scottish Assessors, Registers of Scotland, Energy Performance Certificates, Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

Under **scheme 2**, far fewer households would be expected to receive transitional relief. Estimated costs would be significantly lower than scheme 1, but not by as much as the numbers of households covered. For example, under a **pure revaluation** only those moving from Band D to E (the biggest percentage jump for any single band movement) or moving up two or more bands would be eligible for support in year 1: an estimated 7% of properties, at a cost of just over £50 million. We estimate that year 1 eligibility for the **12-band** and **14-band less regressive systems** would be around 10% and 16%, respectively, at a cost of around £130 million. After four years only very small numbers of properties would still be receiving transitional relief – no more than 0.05%, according to our estimates. Year 4 costs are estimated to vary from less than £0.1 million for the **pure revaluation** to £2-3 million for the **12-band** and **14-band less regressive systems**. There is therefore a real trade-off between coverage of the transitional relief scheme on the one hand and its cost and effective duration on the other.

The proportion of properties eligible for, and the cost of, transitional relief would vary significantly across council areas. Full information can be found in Table B.10 in the accompanying Excel workbook.

We estimate that Aberdeen City, for example, would have relatively few eligible households, reflecting our finding that only a small fraction of properties would see an increase in bill (before any change to the council's Band D tax rate) under any of the reforms we model. For example, under **scheme 1**, we estimate that just 1% of properties there would be capped in year 1 under a **pure revaluation**, rising to 3% under the **12-band less regressive system**. Under **scheme 2** this is estimated at just 0.3% of properties in year 1 under a **pure revaluation** and 0.8% under the **12-band less regressive system**.

At the other end of the spectrum, we estimate that Edinburgh City, where a majority of properties are estimated to face an increase in their gross relative tax rate, would see far higher numbers benefiting from transitional relief. For example, under **scheme 1**, we estimate that 65% of properties would be eligible for relief in year 1 under a **pure revaluation**, with 13% still eligible by year 4. Under the **12-band less regressive systems** we estimate the year 1 and 4 eligibility rates would be 71% and 18%, respectively. In contrast, under **scheme 2**, we estimate that year 1 and year 4 eligibility for transitional relief would be 31% and 0%, respectively, for a **pure revaluation**, and 43% and 0.1%, respectively, under the **12-band less regressive system**.

6.2 Mitigation options

We estimate that the majority of low-income households would see little change in their net council tax bill from a pure revaluation, and reforms which reduced the regressivity of council tax would mean more seeing reductions than increases in bills. However, some low- and middle-income households would face higher bills – with those living in the highest-value properties potentially seeing much higher bills under less regressive council tax systems. In this subsection we consider some possible options for mitigating the impact of bill increases on such households, on a longer-term basis than transitional reliefs would.

In designing mitigation measures it is useful to distinguish between two groups of households:

- The 'cash-poor, asset-poor', which we define here as those who have both low incomes and low wealth. This would include those with low incomes renting high-value properties (or who own their homes but have little equity in them), and who also have low savings and financial wealth.
- The 'cash-poor, asset-rich', which we define here as those who have low current incomes but high wealth. This would include those with low incomes owning high-value properties, but with few liquid assets.

The former may not have the resources to pay the new, higher council tax on the property they live in at all; the latter have the resources, but cannot easily access them without selling (or releasing equity from) their property. The different constraints faced by these two groups would therefore be targeted most accurately via different approaches: an expanded means-tested council tax reduction scheme (CTRS) and a council tax deferral scheme, respectively.

An expanded means-tested reduction scheme

The existing CTRS means that many of the households with the lowest incomes and with low levels of financial assets would be unaffected by council tax revaluation and reform – either their bill is covered in full by this means-tested support or (if they are entitled to only partial CTRS) a change in their bill would be matched by a change in their CTRS entitlement (Scottish Government, 2025d).[16] However, the scope of the CTRS could be expanded either in general or specifically for those households facing a significant increase in bills because of a reformed council tax structure.[17]

For example, when the Scottish Government increased the gross relative tax rates applied to properties in council tax bands E to H in 2017, it introduced a specific CTRS for those seeing an increase in bill (see description in Child Poverty Action Group, 2019). Specifically, single adults with a net income of up

[16] Unlike in England, where, following localisation of the CTRS in April 2013, many councils introduced minimum council tax payments for even the lowest-income working-age CTRS claimants (Adam et al, 2019), full CTRS is still available in Scotland.

[17] Note that any of the council tax reform options we model that involve making the system less regressive would reduce households' need for CTRS (because lower-income households tend to live in lower-value properties whose bills would be reduced on average, leaving them with lower tax bills for CTRS to cover) and therefore the cost of the scheme. Any policy changes to increase the scope and cost of CTRS would therefore be offsetting this prior reduction.

to £321 per week (£16,692 per year) and couples with a net income of up to £479 per week (£24,908 per year) and low levels of financial savings can continue to pay council tax based on the old, lower relative tax rates.

A scheme of this nature could be introduced under a reformed system. This would be most straightforward under a **pure revaluation**, given the retention of the existing banding structure (so eligible households in bands E to H could continue to receive the same reductions as now). However, any scheme introduced could also be adapted to apply to the other reforms. For example, under the **12-band less regressive system** it could be made available to all those in Bands E1 or above, with those in bands E1 and E2 eligible for support to bring their bill down to what it would be under the pre-2017 Band E, Band F bills brought down to a pre-2017 Band F bill, bands G1 and G2 brought down to a pre-2017 band G, and bands H and I brought down to a pre-2017 Band H.

We do not model the Band E–H CTRS scheme in any of our main household-level results because published figures imply that very few households who would be entitled to the scheme actually take it up, meaning a full take-up assumption would be far from reality (Scottish Government, 2018). To indicate the level of support that this scheme could provide in principle, Table 6.1 reports the estimated number of households entitled to the scheme and the estimated annual cost under full take-up for each council tax system (the current system and the reforms we model).[18] It shows that only a small proportion of households would be entitled to the scheme under any of the reforms. The cost of the scheme would be higher if it were applied to less regressive council tax systems, both because more households would be entitled and because the average amount of support for each household would be higher.

[18] See Appendix A for details of how we apply the scheme to the 12-band, 14-band and continuous proportional systems.

Table 6.1. Estimates of the number of households entitled to, and annual cost of, Scottish Band E-H council tax reduction scheme

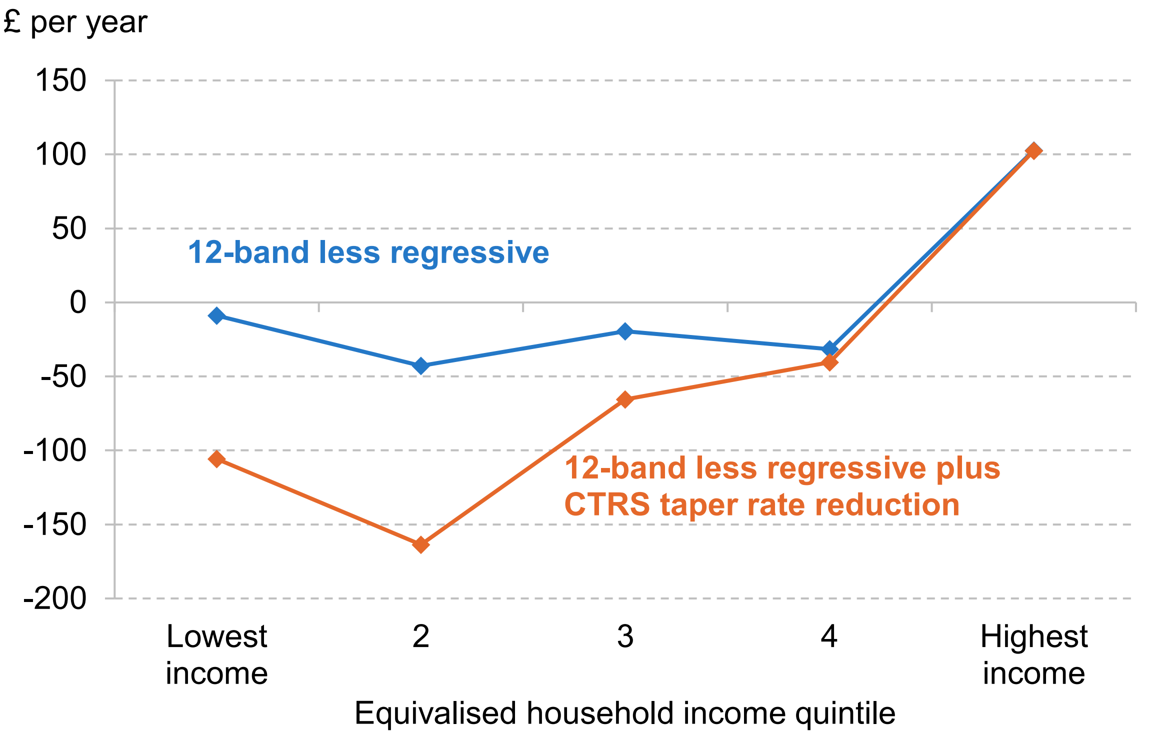
Council tax system	Number of households entitled	Annual cost under full take-up (£ millions)
Current system	13,000	2.6
Pure revaluation	17,000	3.3
12-band differentiated	12,000	4.6
12-band less regressive	18,000	6.4
14-band less regressive	19,000	4.4
Continuous proportional	31,000	11.9

Note: Household figures rounded to the nearest 1,000. Cost figures rounded to nearest £100,000.

Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

On the other hand, reform of the council tax system could provide an opportunity to consider the design of CTRS more generally, to provide additional support to those above the income and capital limits in the main means test. For example, we estimate that reducing the rate at which CTRS is withdrawn as income rises (the 'taper rate') from 20p to 10p per £1 of additional income would cost between £130 million and £150 million, and benefit around 400,000–500,000 households. The cost of this expansion to CTRS depends on the council tax system modelled, with lower costs for less regressive systems. This is because as shown in Section 4, lower-income households tend to have lower gross council tax bills under less regressive systems. It is important to note that this reduction in the CTRS taper rate would significantly increase the number of households eligible for the scheme (and therefore subject to the means test). Our estimates imply that the proportion of households entitled to CTRS would rise from around 25% to 35%, an increase of between 200,000 and 300,000 households (depending on the council tax system modelled). Thus, we estimate that slightly over half of the 400,000–500,000 beneficiaries of reducing the taper rate would be those newly entitled to CTRS as a result; the remainder (about 200,000) would be existing claimants who would see their entitlements increase.

Figure 6.3. Combined estimated effect on average net bills of 12-band less regressive reform and reduction in CTRS taper rate from 20% to 10%, by quintile of household income



Note: Assumes full take-up of CTRS. Households are allocated to quintiles based on income measured after taxes and benefits but before housing costs are deducted, and are adjusted for household size and composition using the modified OECD equivalence scale.

Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

As an example, Figure 6.3 shows the combined estimated distributional effect of the **12-band less regressive reform** and this change to CTRS, by quintile of household income. The taper rate reduction would significantly reduce average net bills for households in the bottom 40% of the income distribution, as many would become newly eligible or eligible for more CTRS than they were previously. Households in the middle-income quintile would gain on average by an estimated £46 per year more if the taper rate were reduced than if it were not, as the lower taper rate would extend eligibility to households further up the income distribution.

A deferral scheme

A deferral scheme could allow certain households who own their property and have equity in it to defer paying part or all of their bill for a period of time – for example, until sale or death, or some fixed time period (say 5 or 10 years) – by taking out a loan to cover the part they do not pay immediately. Such schemes are in place in parts of the US and Canada and in Ireland (see, for example, California State Controller's Office (2025), Government of British Columbia (2025), Irish Tax and Customs (2025) and Maine Revenue Services (2025)). Additionally, in the UK, somewhat similar schemes are available for people facing high social care costs – with the council paying in the short term, and being repaid when the owners sell their property or die (Care for Scotland, 2025).

The design of such a scheme would require consideration of several key issues, including but not limited to the following:

- **Which households are deemed eligible**. In order to help ensure that households have the ability to repay the loan (and deferred tax liability) once a property is sold, a deferral scheme would need to be restricted to those with sufficient equity (or expected to have sufficient equity by some future date) to cover the expected liability. For example, the deferral scheme for social care costs requires councils to register a charge against a property (Care for Scotland, 2025). This is unproblematic for homes owned outright but is not always possible for properties with a mortgage still in place, as some mortgage contracts do not allow other charges against a property until the mortgage is paid off (UK Finance, 2018). Mortgagees in such circumstances might need to be excluded from the deferral scheme. Even if mortgagees are not excluded, limits on the total charges against a property, including mortgages and deferred taxes could be put in place: British Columbia's scheme caps charges at 75% of the official estimated value of a property, for instance (Government of British Columbia, 2025).

  Eligibility could also be restricted in other ways, based on the characteristics of the household (such as the income, wealth or age of household members) and/or the characteristics of the property (such as the council tax band it is in or the gross bill it attracts). For example, in Ireland, for those who have paid off their mortgage, the main deferral scheme is available only to single-adult households with an income up to €30,000 and couples with a joint income up to €42,000, with higher thresholds for those who have an outstanding mortgage (Irish Tax and Customs, 2025).[19] In British Columbia, eligibility is not means-tested but is restricted to certain groups: those aged over 55, widows and widowers, people with disabilities, and families with children (Government of British Columbia, 2025). Means-testing or otherwise restricting eligibility would increase administration costs per claimant, as additional information would need to be collected (and for at least a sample of claimants, verified) to assess eligibility. On the other hand, it would reduce the amount of deferred tax, and may reduce aggregate administration costs if it reduces the number of households applying for and utilising the deferral scheme.

[19] There is a separate scheme for those in personal insolvency and a discretionary scheme for those facing excessive financial hardship.

Important in the Scottish context is the growing number of people with a defined-contribution pension who (under ‘pension freedoms’ introduced in 2015) draw down their accumulated savings rather than purchasing an annuity (Adam et al., 2023). Treating such individuals in the same way as those with a defined benefits pension or annuity might involve treating their drawdowns as income and comparing that to the income they would receive from an annuity. For example, under pension credit rules, the income used for calculating entitlement in any given period is the maximum of the annuity that could be purchased from the pension pot and the actual amount withdrawn. Tax-free lump sum withdrawals are treated as capital and assumed to generate capital income according to the normal capital rules (Child Poverty Action Group, 2025). Other approaches are possible; but the issue is not a straightforward one.

- **What fraction of bills are eligible for deferral.** A deferral scheme could allow councils tax bills to be deferred in full or only in part, and this could differ between different types of households. For example, in Ireland’s scheme, full deferral is only available to single adults without a mortgage whose income is below €18,000 and couples without a mortgage whose income is below €30,000, again with higher thresholds for those with an outstanding mortgage. Those with incomes between these limits and the upper limits for the deferral scheme can only defer 50% of their bills (Irish Tax and Customs, 2025). Allowing full deferral would provide most support to eligible households, but would increase the amount of deferred tax, and hence the amount that would need to be borrowed to cover the deferred tax until loans to households are repaid.

- **The duration of deferral.** Any deferral scheme would need to specify how long payments can be deferred for. Possible options for the latest point at which deferred taxes become due include sale of the property, death of a sole (or final) resident, and/or a simple time limit such as five or 10 years, which would help to avoid the accrual of large tax debts (and the associated default risk), especially for households headed by working-age adults.

- **The interest rate charged on the deferral loan.** Deferring (a portion of) a council tax bill is valuable to households and costly to the authorities – the household can potentially save or invest the money in the meantime instead, earning a return, while the authorities must borrow to pay for the expenditure that would have otherwise been covered by the tax bill. Charging interest on the deferral loans can address this issue and cover the cost of any loan defaults. Ireland, for example, charges an interest rate of 3% (it was 4% between 2013 and 2021), while as of June 2025, British Columbia charges 3.45% to the over-55s, widowed and disabled, and 5.45% to families with children (Government of British Columbia, 2025; Irish Tax and Customs, 2025). The interest rate could be set below, at or above an actuarially fair rate. A rate below (or charging no interest at all) would represent an implicit subsidy to those deferring their tax bill, which could encourage those who do not need to defer to take it up so that they can benefit from a lower (interest-adjusted) bill. A rate above could discourage those who do not need to defer their tax bill from doing so, but would mean those who do take it up effectively pay more (in interest-adjusted terms) than those who choose not to defer.

- **The administration arrangements.** In Ireland, deferral loans are provided by central government (via Irish Tax and Customs) and in British Columbia they are provided by the provincial government (Government of British Columbia, 2025; Irish Tax and Customs, 2025). In Scotland's case, restrictions on Scottish Government borrowing mean that loans would more feasibly be provided by councils, as is already the case for social care cost loans (HM Government and Scottish Government, 2023; Care for Scotland, 2025).

Following typical practice elsewhere would suggest focusing such a scheme on low- and middle-income households ineligible for CTRS who may nevertheless find it challenging to pay a higher bill, and/or demographic groups that may find it more difficult to move properties to reduce bills; however, other approaches are possible. The number of households potentially eligible would depend on the precise design of the scheme. To illustrate the potential number, Table 6.2 shows estimates of the number of households who would face an increase in net bill of over £300 under each modelled reform, who are owner-occupiers and not eligible for full CTRS, and who also satisfy the following conditions:

1. They contain at least one adult aged at or above the state pension age (66).
2. They satisfy (1) or they contain at least one individual in receipt of disability benefits.
3. They satisfy (1) or (2) or they have at least one child.

Conditions (2) and (3) add additional routes for eligibility, and so the number of eligible households is higher under these options.

The table shows that an estimated 250,000 to 360,000 owner-occupier households would face an increase in net bill of over £300 per year, depending on the reform modelled. This is between 10% and 14% of all households in Scotland. We estimate that restricting eligibility for deferral to those over state pension age would reduce these figures by around two-thirds. Our estimates are that including households in receipt of disability benefits would modestly increase the numbers eligible for deferral, while including families with children as well would more significantly increase eligibility, up to between 5% and 8% of households.

Lower (or higher) bill increase thresholds would increase (or reduce) potential eligibility. Restricting eligibility based on incomes as well as demographics would reduce potential eligibility.

Unlike with a transitional relief scheme, there is no long-term trade-off between eligibility and cost for a deferral scheme if the tax is deferred with interest at an actuarially fair rate accounting for default risk: the value of the tax ultimately paid would be the same regardless of deferral. However, wider eligibility and take-up would mean councils' borrowing more in the short term to cover deferred bills.

Table 6.2. Estimated number of households facing an increase of over £300 in their annual net council tax bill and satisfying various additional criteria

	Pure Reval	**12-band Diff**	**12-band LR**	**14-band LR**	**Continuous Proportional**
Owner-occupier and not eligible for full CTRS	250,000	250,000	260,000	360,000	320,000
Additional restrictions	No data	No data	No data	No data	No data
(1) At least one adult above State Pension Age	80,000	80,000	80,000	120,000	100,000
(2) Satisfies (1) or at least one individual in receipt of health-related benefits	90,000	90,000	90,000	140,000	120,000
(3) Satisfies (1) or (2) or at least one child	150,000	140,000	150,000	210,000	180,000

Note: Figures rounded to the nearest 10,000. Pure reval = pure revaluation; 12-band diff. = 12-band differentiated; 12-band LR = 12-band less regressive; 14-band = 14-band less regressive; continuous = continuous proportional.

Source: Authors' calculations using Understanding Society waves 8-10 and 14 and TAXBEN, the IFS tax and benefit microsimulation model.

7. Conclusions

This report has analysed the potential impacts of revaluing and reforming council tax on different geographic areas and types of households in Scotland. The systems modelled are indicative only but do illustrate the scope for change.

Revaluation on its own would address the fact that, under the current system, two properties now worth the same can attract very different tax rates, but would not reduce the regressivity of the system. To do that, the relative tax rates applied to low-value properties would need to be reduced, while those applied to high-value properties would need to be increased. To reduce jumps in tax rates at band thresholds and to differentiate more finely between properties of different values, additional bands could be added, or a move made towards a continuous system based on exact (unbanded) property values as in Northern Ireland (nidirect, 2025). Section 4 showed that, according to our estimates, making council tax less regressive would, on average, reduce bills for low- and middle-income households, younger adults, single and widowed pensioners, disability and health-related benefit recipients, and renters. Section 3 shows that, according to our estimates, it would reduce average bills in more deprived parts of Scotland and in areas where property values have fallen significantly behind the national average in recent years, such as Aberdeen City. Conversely, we estimate that higher-income households, older working-age adults (aged 45 to 64), couples, owner-occupiers and residents of more affluent areas would pay more on average – in some cases substantially more.

The impact of reforming council tax would depend on more than just any new property valuations, tax bands and tax rates. It would also depend on whether and how the grant funding provided to councils on top of their own tax revenues was adjusted, and how councils responded to the new council tax system and grant allocations. If, for example, grant funding was left unchanged, and councils wanted to maintain their spending on services following council tax reforms, each would need to raise as much council tax and so charge the same average bill as in the absence of reform. In this case, those councils seeing more properties in lower bands and/or facing lower relative tax rates would need to raise their Band D rates, while those seeing more properties in higher bands and/or facing higher relative tax rates could reduce their Band D rates. Council tax reform would redistribute council tax bills within council areas, but not across them.

There are a range of different options for grant adjustment, and for ways in which councils could respond. Currently, the Scottish local government finance system accounts for about 60% of the differences in councils' tax bases when determining how much grant funding they are provided with[20], however; other approaches would be possible. The Welsh Government has said it plans to adjust grant funding to account fully for changes in councils' own revenue-raising capacity following Wales' upcoming council tax revaluation (Welsh Government, 2024).

Transitional arrangements and mitigation measures could also play an important role in supporting those households facing large increases in bills and/or who may struggle to pay increased bills. Our estimates suggest that most low- and middle-income households would see reductions in bills under less regressive council tax systems but a minority, especially in parts of Scotland with higher property values, would see increases. There is a trade-off between scale and cost for schemes of this nature: schemes providing more support to more households would inevitably cost more.

Finally, there are a number of areas where further analysis may be possible in future. First is modelling the effects of different degrees of grant adjustment, which analysis for England and Wales shows has a significant effect on the geographical impacts of council tax revaluation and reform (Adam et al, 2020a, 2020b). Second, and related to this, is accounting for council tax discounts, premiums, exemptions and means-tested reductions in geographical analysis, which would allow for modelling of changes in net council tax bills across different geographical areas (as well as different household types). Third is more detailed modelling of potential transitional and mitigation schemes, where the use of different data sources (such as the Wealth and Assets Survey), and potentially the collection of new data, could help to fill in gaps and address sample size issues for the main household survey data used in this report, Understanding Society. Thus, there are multiple avenues for further research and quantitative modelling to inform council tax revaluation and reform in Scotland.

[20] Grant allocations to Scottish councils account for how much they could raise themselves if they set a Band D rate of £911 (Scottish Government, 2025f), while the average Band D rate charged by councils was £1,543 (Scottish Government, 2025c). This means that the notional rate used for grant allocation was 59% of the average rate actually set.

Appendix A. Methodology

A.1 Geographical analysis

To undertake our geographical analysis, we use data from three main property-level data sources:

(1) Scottish assessors data on all residential properties in Scotland, which tells us each property's existing council tax band, as well as some characteristics (such as dwelling type, including whether it is detached, semi-detached, terraced, etc.);
(2) energy performance certificate (EPC) data, which provides further information on property characteristics (such as size, build date and energy efficiency) for a (large) sub-set of properties; and
(3) Registers of Scotland data on the date and transactions value for properties that have transacted.

We also use data on a range of local area characteristics, including deprivation, rural/urban classification and access to local services, as well as the neighbourhood ('data zone' or 'intermediate zone' depending on sample size) in which a property is located.

Matching properties in different datasets

Where possible we match properties between datasets using their Unique Property Reference Number (UPRN). This is designed to be a unique number for all properties (both residential and non-residential) across Scotland. However, not all properties have yet been assigned UPRNs, some UPRNs actually cover multiple properties (for example, if unique UPRNs have not yet been assigned to houses converted into flats) and not all records in our input datasets contain UPRNs even if properties have had them assigned. For this reason, in order to expand the number of properties which we are able to match we match properties as follows:

- For properties with a unique UPRN available in all datasets, we match on the basis of UPRN.
- For properties where this is not the case, we first try to match on the basis of the first line of their address (which could be house number and street, or apartment number and apartment building), and their full post code.
- For properties that we still cannot match, we then attempt to match on the basis of the first and second line of their address (which might add a neighbourhood for a house, and a street name for an apartment) and the first part of the postcode (e.g. ED1).

- For properties that we still cannot match, we then attempt to match on the basis of the first two words in their address (e.g. “The Ridings”) and their full postcode, excluding flats (to avoid matching the wrong flats if, for example, there is more than one “Flat 1” in a postcode).
- For flats that we still cannot match, we then attempt to match on the basis of the first four words in their address (e.g. “Flat 1, the Maltings” and their full postcode.

We investigated using ‘fuzzy matching’ approaches which do not require exact matches but the standard approaches for this in the statistical software we use (Stata) do not distinguish between numerical differences (e.g. “10” and “15”), which mean two records highly likely represent separate properties, and textual differences (e.g. “The Gables” and “Gables”) which more likely represent the same properties. Note that we cannot guarantee that there are no incorrect matches, but the ordering and design of these approaches is designed to minimise mismatches.

Using this approach, we were able to match Assessors and EPC data for 1.45 million properties. We were also able to match to 780,000 property transactions in the Registers of Scotland data, some of which were multiple transactions for the same properties. We use properties transacting more than once to improve our estimation of our hedonic regression models (see next sub-section) but only the most recent observation for such properties when undertaking our final analysis.

We then use a UPRN-to-geography look-up file (and postcode-to-geography look-up file for properties without a UPRN) available from the Scottish Government to match properties to their intermediate and data zones, and their local area characteristics (such as deprivation, urban/rural classification and whether they are located on an island).

Hedonic regressions

We use a hedonic regression approach to estimate property values using property and area characteristics and the relationships between these and observed transactions values. Our hedonic regression includes the following property and area characteristics:

- The built-form of a property (e.g. whether it is detached or terraced).*
- The type of property (e.g. whether it is a flat, tenement or house of various kinds).
- The number of habitable rooms in a property, excluding kitchens and bathrooms.
- The size of a property in square metres.
- The number of fire places in a property.
- The type of power source used to heat a property.

- The type of windows a property has.
- The year in which a property was built (based on year bands).
- The council tax band a property is currently in.**
- The council a property is located in.*
- The data zone a property is in, provided at least 17 properties that we can match transacted in that data zone between 2015 and 2024, otherwise the intermediate zone a property is located in.
- The deprivation level of the data zone a property is located in as measured by the 2020 Scottish Index of Multiple Deprivation.
- The rural/urban classification of the data zone a property is located in as measured by the 2011 census.
- The output area classification of the output area a property is located in, based on the geographic and socio-economic characteristics of that area as of the 2011 census (an output area contained 20 – 77 households at the time of the census).

Variables with a * are interacted with either the year a transaction took place in (for built form) or the quarter and year a transaction took place in (local authority), to allow for different time trends for property values over the period of data used for our estimation (2015 to 2024). Council tax bands (labelled with **) are interacted with the council a property is located in to allow the effect of existing council tax bands on property values to vary by local authority.

The hedonic regression is run in log-log form, whereby the log of the property transaction price is regressed on the above variables in either indicator form (for example, separate dummy variables indicating whether a property has 1, 2, 3, etc. habitable rooms) or in log form (for example, log of the property size).

The number of data zones and various interaction effects mean there are thousands of explanatory variables in the regressions, with the coefficients on them capturing the effect of that variable on transactions values, conditional upon all other variables.

Our final specification uses 10 years of transactions data, and predicted values for Q3 2024. During the course of analysis, we tested the sensitivity of our results to the use of fewer years of transaction data (e.g. the last 4 or 5 years) and predicted values for an earlier period (Q2 2024). Overall, the results were similar. However, using fewer years of transaction data meant that we lacked sufficient matched transactions volumes for more data zones and so had to pool more data zones together into intermediate zones. This resulted in less spatially-precise estimates for value, especially for areas where intermediate zones cover large geographical areas. Estimated Q2 values differed somewhat by council compared to Q3 values, but did not differ so far as to indicate instability in our estimates. Q3 was therefore chosen as the most appropriate period to estimate values for, balancing being up-to-date, while still ensuring sufficient transactions had been reported in time for incorporation into the Registers of Scotland data provided to us for this project.

Predicted property values

The use of a log-log hedonic regression specification means that if we used the (exponential of) the central (log) predicted value for each property we would, on average, under-estimate property values. Mathematically, this is because the mean of the log value is not the same as the log of the mean value. So that our predicted property values do not, on average, under-estimate property values in this way, we draw five random error terms from the estimated error distribution for our hedonic regression. Our final predicted property values are then the average of these five predicted values with added errors. These error terms have mean zero in log terms, but a positive mean in cash terms, addressing the under-estimation problem.

Our approach bears some similarity with the approach the Value Office Agency (VOA) has taken for valuing properties in Wales. Here rather than take five random error draws, they average over the errors between the hedonic regression’s predicted value and actual transaction value for the five most similar properties that actually transacted. This approach allows for the hedonic regression to systematically under- and over-estimate values by different amounts for different kinds of properties. Our approach, based on random error draws does not allow for this. It was not feasible in the time or resources available for this project to adopt the approach taken by the VOA.

Sample weighting

While the hedonic regressions and predictions (with error) provide estimated Q3 2024 property values for the 1.45 million matched properties in our sample, these are not fully reflective of all properties in Scotland. In particular because EPCs are required for rental properties, rental properties are somewhat over-represented in this sample, and hence so too are lower-value and lower-band properties. For example, whereas a combined 58.4% of properties (excluding garages) are bands A – C according to the Assessors data, 61.9% of our matched sample are. We therefore weight our sample so that the number of properties by first part of a postcode (e.g. ED1), existing council tax band and property type (e.g. detached house, terraced house, flat, tenement), as well as by local authority and existing council tax band match that reported in the full Assessors data.

A.2 Household-level analysis

To undertake our household-level analysis, we use data from four waves (waves 8–10, and 14) of Understanding Society, a representative household panel survey. This covers households interviewed between 2016 and 2019, and between 2022 and 2023. We omit waves 11 to 13 which were adversely affected by the Covid-19 pandemic. Since it is a panel, there are some households that appear more than once, although we treat each household–wave observation individually. This gives us an initial sample of 7,577 household observations in Scotland.

In order to model reforms to council tax at the household level, we need (a) up-to-date property values, (b) current council tax bands and (c) council tax liabilities, taking into account council-specific tax rates, eligibility for discounts and exemptions (such as the single-person discount and student exemptions) and the CTRS. We do not model empty home discounts, as our data only capture information on primary residences, nor disability-related discounts, which cannot be identified in the data. We are also unable to model whether households meet asset requirements for CTRS due to a lack of information on assets in the Understanding Society data. For our main results we do not model the specific Bands E to H CTRS introduced in 2017, this decision is explained in more detail below.

The process for deriving up-to-date property values is described in detail at the end of this appendix.

We use linked administrative data to determine households' current council tax bands. The Understanding Society data also contain self-reported council tax bands. However, we consider these to be less reliable than the council tax bands from the administrative data: they differ from the administrative data in around a third of all cases, and the distribution of self-reported council tax bands differs from the administrative data on all properties in Scotland. (Specifically, self-reports tend to overstate the share of properties in band D, which may reflect the fact that band D is the reference band and the band D rate is therefore often listed at the top of council tax bills).

Administrative data are not available for 23 of the households in our data. In these cases, we use the households' self-reported council tax band. If we have no linked band or self-reported band, we impute their council tax band using their reported house value or rent, council and property characteristics. This is done using an ordered logistic regression, run separately for homeowners, private renters and social renters. For each tenure type, we regress administrative-linked council tax band on (log) self-reported house price or monthly rent (whichever is relevant), housing characteristics (house type interacted with number of rooms), location characteristics (rurality and Scottish Index of Multiple Deprivation (SIMD) decile) and which council the property is located in.[21] We then randomly select a council tax band for those with missing values from the predicted probability distribution.

Because of the small sample size in Scotland, the imputation is done jointly for all of Great Britain, controlling for country and upper-tier council and allowing the

[21] Rurality is measured using Scottish Government Urban Rural Classification (Scottish Government, 2022).

effects of Index of Multiple Deprivation (IMD/SIMD) deciles to differ by country (because they are separately defined). The results are robust to alternative imputation methods, including an ordered probit regression and nearest-neighbour matching based on reported house value or rent, dwelling type, upper-tier council (in England, where some areas have two tiers of local government) and the number of rooms.

Table A.1 shows the distribution of council tax bands using different data sources. It shows that the distribution of council tax bands in Understanding Society (USoc), using linked administrative data and including imputations (row 4), closely matches the distribution of council tax bands in Scotland as a whole (row 1). We then further reweight our data so that they match exactly the distribution of council tax bands in the full administrative data. The final sample closely matches the (representative) overall USoc sample in terms of the distributions of income, local area deprivation (SIMD), age of oldest household member and household size. That said, the distribution by age of oldest household member differs from the distribution in other data sources (such as the Labour Force Survey and Family Resources Survey), with fewer younger households.

Table A.1. Distribution of council tax bands in different data sources (%)

Data	A	B	C	D	E	F	G	H
1. All Scotland	19.1	22.3	16.3	14.0	13.9	8.4	5.4	0.6
2. USoc: self-reported	14.3	23.3	13.8	18.9	11.8	8.2	7.0	2.8
3. USoc: admin	17.5	22.9	16.5	12.9	14.9	9.1	6.0	0.3
4. USoc: admin with imputations	18.0	22.1	15.9	14.6	13.7	8.8	5.9	1.0
5. USoc: final, reweighted	19.1	22.3	16.3	14.0	13.9	8.4	5.4	0.5

Note: All Scotland figures are for 2024. They differ from the band distribution in the geographical analysis as some properties in the assessors' data are not part of the tax base. USoc figures (2) to (4) are weighted using sample weights.

Source: Authors' calculations using Scottish Government data (via statistics.gov.scot) and Understanding Society waves 8–10 and 14.

To calculate estimated council tax liabilities, the impacts of reforms are modelled using the IFS tax and benefit microsimulation model, TAXBEN. This contains council tax rates for each council, as well as information on the Scottish CTRS. We model reforms under the 2025–26 tax and benefit system, assuming that changes being phased in, such as the roll-out of universal credit, are fully in place.[22] This allows us to estimate the long-run effect of revaluation and reform, once the roll-out of universal credit and other transitions under way are complete in the next few years. We drop 1,931 households with incomplete information on incomes and household characteristics. This leaves us with a final sample of 5,646 household observations in Scotland.

Assumptions on grant adjustment

As discussed in Section 3.2, the impact of revaluation and reform of council tax will depend crucially on whether and how grant funding for local councils is adjusted to reflect changes in the tax bases of different councils. We are unable to explicitly account for this as samples at the council level are too small to be properly representative. Instead, we adjust the council tax rates that all households in Scotland face by the same proportion so that reforms are revenue-neutral across Scotland as a whole. When tax rates are fairly similar across council areas, as is the case in Scotland, this approach will lead to estimates closer to what we would obtain if we were able to model full grant adjustment, rather than no grant adjustment.

Modelling the Band E–H council tax reduction scheme

When the Scottish Government increased the relative tax rates applied to properties in Bands E–H in 2017, they also introduced a specific CTRS for households with below-median income in these bands but not eligible for usual CTRS. For our main results we do not model this specific scheme because published figures imply very few households who are entitled to the scheme actually take it up. As a result, including the scheme in our modelling which assumes full take-up of CTRS would take us further from reality.

When we do model the scheme, we must make assumptions regarding how the system would operate under the various reforms. For the pure revaluation we assume eligible households in Bands E to H receive the same reductions as apply in the current system. For the 12-band reforms we assume that those in Bands E1 and above could potentially be eligible, with households in Bands E1 and E2 eligible for support to bring their bill down to what it would be under the pre-2017 Band E, Band F brought down to a pre-2017 Band F, Bands G1 and G2 brought down to a pre-2017 Band G, and Bands H and I brought down to a pre-2017 Band H. For the 14-band reform we similarly map bands to their pre-2017 equivalent, where G1 and G2 can be brought down to pre-2017 G, and Bands H and above can be brought down to pre-2017 H. For the continuous proportional system, we assign the potential support for each household based on which band they would fall into under a pure revaluation. For example, a household whose property value would put them in Band E under a pure

[22] An exception is the two-child limit on benefit entitlements, for which we model the policy as it is in 2025–26.

revaluation would be eligible for support to bring their bill down to pre-2017 Band E.

Hedonic regressions for property values

The Understanding Society data contain self-reported property values for homeowners, which we uprate to 2024 Q3 using the HM Land Registry (2025) council-level House Price Index for the appropriate dwelling type (detached, semi-detached, terraced, etc.). This leaves us needing to estimate property values for renters.

To do this, we regress property values for homeowners on property characteristics (dwelling type, number of bedrooms and other rooms, existing council tax band), location characteristics (council, rurality, population density, Data Zone deprivation levels[23]) and household characteristics (income, household composition and demographics[24]). The estimated coefficients from this regression are then used to predict property values for renters. Note that the aim of this exercise is to predict property prices as closely as possible, not to model the price of specific housing amenities – it is not a 'hedonic regression' in the traditional sense of the term. As such, characteristics that do not directly affect property values but are nonetheless predictive of property values, such as household income and the number of children in the household, are included in the regression.

The regression explains 69% of the variation in property values for homeowners in Scotland. Property prices are regressed in log form. Regression coefficients for the main characteristics are listed in Table A.2. Dwelling type, number of bedrooms, number of other rooms and council tax band all have a statistically significant impact on price. Conditional on other characteristics, detached properties, those with more rooms, and those in higher council tax bands tend to be more valuable. To impute values for rental properties, a random error (drawn from the distribution of prediction errors among homeowners) is added to the predicted log property price, which is then converted back into pound values. This ensures we have an appropriate degree of variation in property values conditional on observed characteristics. To ensure that our results are robust to these random draws, we impute 20 property values for each household based on 20 randomly drawn error terms. The results we present are based on averaging 5 of these error terms four times for each household.

[23] Based on deciles of specific components of the IMD: income, employment, housing, education and health.

[24] These include whether the household contains a couple, the number of adults, the number of children in different age groups, the highest qualification in the household, the age of the oldest household member and whether anyone in the household is in receipt of disability benefits or reports having a long-standing illness or disability.

It is possible that the approach of imputing property values for renters based on a regression for owner-occupiers could lead us to overstate the values of rented properties, if they are systematically less desirable than owner-occupied properties with the same observed characteristics. This would in turn lead us to overestimate the council tax liabilities of households that rent after revaluation and reform.[25] However, adequately controlling for unobserved differences would require advanced statistical techniques beyond the scope of this work.

Table A.2. Regression of log property prices: selected coefficients

Variable	Coefficient	Standard error
Dwelling type (ref: detached)		
Semi-detached	-0.0626***	(0.021)
Terraced	-0.0472**	(0.022)
Flats/Maisonettes	-0.228***	(0.0298)
Other dwelling type	-0.841**	(0.368)
Dwelling type unknown	-0.0103	(0.0228)
Number of bedrooms (ref: 1)		
2	0.191***	(0.0421)
3	0.32***	(0.0420)
4	0.42***	(0.0461)
5	0.576***	(0.0514)
6	0.984***	(0.0654)
7 or more	0.952***	(0.120)

Continues

[25] If instead these properties are systematically more desirable, then we would understate the values of rented properties and hence underestimate the council tax liabilities of renter households.

Table A.2 continued

Variable	Coefficient	Standard error
Number of other rooms (ref: 1)		
2	0.0821***	(0.0175)
3	0.195***	(0.024)
4	0.205***	(0.0321)
5	0.307***	(0.0406)
6	0.214***	(0.0743)
7 or more	0.453***	(0.154)
Council tax band (ref: band D)		
A	-0.443***	(0.0415)
B	-0.284***	(0.0284)
C	-0.165***	(0.0249)
E	0.103***	(0.0212)
F	0.179***	(0.0303)
G	0.378***	(0.0311)
H	0.427***	(0.0564)
Other control variables included		
Interview quarter	Yes	
Household composition (couple; number of adults; number of children aged 0–2, 3–4, 5–11, 12–15)	Yes	
Net household income	Yes	
Demographics (highest qualification; age of oldest household member; self-reported disability or long-standing illness; disability-related benefits)	Yes	
Location (rurality; upper-tier council dummies; population density and squared; Data Zone-level deprivation deciles)	Yes	

Note: *** and ** indicate statistical significance at the 1% and 5% levels respectively.

Source: Authors' calculations using Understanding Society waves 8–10, 14

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