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ICAS response to the Scottish  
Government consultation



# Future of council tax in Scotland

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# Our response

## Future of council tax in Scotland consultation

Thank you for the opportunity to comment. Our key messages on the consultation paper are noted below, supplementing the mandatory questionnaire.

### Key messages

Overall, we agree that the council tax system needs reform, but the particular way forward is less clear and there are still some strategic questions. ICAS promotes accountability and transparency, we believe that:

- A more coherent and strategic long-term approach needs to be taken to funding pressures and tax reform, with greater clarity of direction to promote consistency and certainty for taxpayers and to mitigate unintended consequences.
- A holistic approach to taxation is needed so that the cumulative impact of different taxes on the taxpayer is transparent and considered within policy decisions.
- Policy decisions need to be evidence-based and should clearly demonstrate this.
- A broader range of council tax options should be carefully considered, costed and evaluated against objectives, including how they align with national priorities such as economic growth.
- We believe that affordability of policies deserves greater attention and clearer communication. As public finances are in a challenging position, demonstrating cost effectiveness is critical to maximising available funding for meeting service objectives.
- To promote local accountability and transparency, we strongly believe that the opportunity to update council tax legislation includes removing the anachronism which conflates the council tax calculation and accounting purpose of financial statements. This unnecessarily impedes the preparation of simpler and more understandable accounts for local residences and taxpayers.

### Progress since 2015

There are useful findings in the [Commission on Local Tax Reform 2015 report](#). Over 10 years have passed and some significant developments have occurred since 2015. There is value in updating the findings to add to the evidence base, consider wider options for local taxation mechanisms and explore developments during the period before focusing or concluding on a restricted list of options.

### A strategic approach to funding needs

We agree that council tax contributes towards the general funding of local services. The first step is identifying the objectives and funding needs of local authorities providing those services. Council tax raises a minority of revenue for local government. This has increased from 2014 when council tax was 12% of total local government revenue income. The big question is how to achieve sustainable public finances. We believe a more fundamental reform of local government funding is required to meet local authority needs, which have become increasingly pressurised over several years.

Whilst reform of council tax can make a contribution, it will not address this gap alone and a funding review needs to consider the other components of local government funding and what proportion of income council tax and other sources of income are expected to contribute over the longer term.

## Alignment with a national tax strategy

Council tax reform needs to form part of a long-term national strategy on tax and spend setting out the objectives, challenges, opportunities, plans and how this aligns with the national objective to achieve economic growth. As part of the tax strategy, we would like to see a high-level approach to taxation, including the principles, direction and evaluation of the combined impact on taxpayers, particularly given the changes to devolved taxes over the last 10 years. For example, the regressivity of the current council tax system in relation to property values, contrasts with the highly progressive income tax system.

A tax strategy for all taxes would offer stability and direction. This could include: Objectives to achieve fairness, stable and sustainable revenues, the balance of progressive versus proportionate tax models, how the tax system can support economic growth, a timely approach to updates and corrections, government attitudes to affordability and comparatives with the rest of the UK. Where tax progressivity is used, the risks of potential overconcentration of revenues on a minority group of the highest earners should be considered at a combined tax level as any drop within this group will have an outsize impact on tax revenues and may not be sustainable longer-term.

Taxpayers do not necessarily differentiate between national and local taxes. We believe it is good practice to have consistency in approach and principles, sharing good practice where appropriate. This is increasingly important where local authorities may be using their evolving powers to increase local taxes and levies. We encourage early engagement with national tax bodies when designing local taxes and levies. We support a holistic approach to taxation including:

- Impact evaluation on the taxpayer of the combined effect of all the taxes they are subject to so that decisions are not made in isolation.
- Reviewing the alignment of new local taxes with national taxes so the basis, design, principles and approach is consistent with a tax strategy and supported by relevant national bodies to avoid unintended consequences. Where local taxes are developed, we would also encourage access to specialist support from the relevant national tax body as appropriate.
- A consistent and regular (annual) process to correct and amend tax legislation where unintended consequences or errors are identified.

## Evaluating wider options

Although the case for revaluation has been logically presented (and we do not support regressive taxation) a broader review of the options available and their impact is important to demonstrate feasibility, value and effectiveness before progressing. This is particularly important given the scale and cost of revaluations, transitional measures, potential impact on the market and likely challenges to achieve public and political acceptability.

We believe that the costs and benefits of alternatives should be evaluated openly and jointly. It is difficult to make informed decisions on the impact of one method in isolation.

The time lag since the original valuations and bandings were set up means that there is a significant shift and cost to update valuations, reflect property changes/ reconfigurations and make the current system of council tax more equitable. The cost and resources required to support revaluations of all properties across Scotland will be very significant, with a long implementation period. We also note the considerable political and public challenge of taxes linked to updated property values which has contributed to the exercise of caution and procrastination of council tax reform over many years. Revaluations are subjective, not always straightforward and can be subject to appeal which all add time and cost. They also need regular updates.

The selected local tax method needs to demonstrate efficiency and effectiveness. Before forming a view on a model based on large-scale revaluation and addressing a system which has been out of date since 1991, we need to see how this model compares with other tax-raising methods, for

example a local income tax. This alternative was noted in the 2015 report and given the 10+ years gap, it is worth exploring this further with stakeholders, including HMRC and Revenue Scotland.

Income tax generally is proportionate, transparent and understandable. There are challenges applying it to local authorities including the availability of information at HMRC. Further exploration is needed to evaluate the challenges, costs, and benefits compared to alternative methods. It could cover a wider tax base than householders and reflects affordability unlike a property tax which may generate significant change and require adjustments or transition measures, which add an additional layer of cost (e.g. to help those with additional cost of living needs, asset rich/cash poor households). It is noted that the IFS have done some research on this.

## Affordability

Cost and affordability are important criteria in designing an effective tax mechanism. Affordability and the government cost of implementing and maintaining potential tax mechanisms requires stronger emphasis and clearer communication in the evaluation of options for council tax reform,

In particular, not only does cost effectiveness deserve greater attention for good practice, it is one of the principles set out in the Scottish Government Revenue Scotland framework and given the public finances are in a challenging position, demonstrating cost effectiveness is critical to maximising available funding for meeting service objectives.

## Transparency over future direction

Expectations need to be clearly communicated to the public. At present the proposals consider a revenue neutral outcome which facilitates analysis; however, it is expected that in practice this would change over time. A revenue neutral outcome could offer a fairer distribution but would be open to challenge in terms of whether the significant investment required to achieve this also meets local authority funding needs, demonstrates value for money and meets the best value duty. The direction of travel, scope for change and impact on taxpayers needs to be clear to provide certainty.

## Wealth tax and interaction with other taxes

Council tax is not a tax on wealth and this is not currently a normal basis for taxation in the UK. Where tax is charged as a percentage of property value, it is usually charged on a transaction e.g. LBTT on purchase, or transition e.g. IHT on death which coincides with a liquidity point. Any shift of tax basis to a wealth tax (which is suggested by a wholesale revaluation of residential property) would be a significant policy change, particularly for an illiquid asset which can increase the risk of payment difficulties or drive behavioural change. We believe it would be important to consult on such a change so that the implications of wealth taxation are openly and publicly discussed and scrutinised.

We note that council tax is charged on residential properties (homes) not wealth assets per se. There is a more complex relationship between affordability, ability to pay cash bills and illiquid assets. A closer relationship between property values and tax calculations would need to consider the impact and interaction with other taxes, such as LBTT to avoid the taxpayer perception of potential duplication.

## Supporting local accountability

Local accountability is identified as an important factor in local taxation. Taxpayers need a clear picture of what they are paying for, the performance of their local authority (with appropriate benchmarking), responsibilities and decision-making. This includes clarity on the split of responsibilities between central and local government, and where councils comply with statutory services or where they exercise discretion.

Local authority financial statements, owing to historic specialisations, are overly complex so they do not give a clear picture of the total accounting cost of providing services<sup>5</sup>. This is not in the public interest. We recommend that the statutory framework which conflates the council tax calculation and accounting purpose of financial statements is amended to remove this barrier to simpler and more understandable public reporting. This would help to increase the transparency of the performance of local government.

We suggest that proposals to amend the Local Government Finance Act 1992 or related regulations for streamlining and simplifying reporting in the published financial statements are considered at the same time as changes to the council tax system.

## Budget announcement

The Scottish Budget on 13<sup>th</sup> January 2026 announced two additional council tax bands at the top end for properties valued over £1m and £2m. We have three observations:

- The focus on a mansions tax for properties over £1m is a negligible segment (<0.5%) which is heavily positioned in/ around Edinburgh. The change does not offer a meaningful opportunity for councils across Scotland to increase their revenue during a period of significant financial challenge. There is also a concern that the revaluation, set up and maintenance costs may leave little revenue for local authorities. We strongly support an evidence-based approach to policy development which considers the wider impact to maximise potential effectiveness and efficiency.
- The £1m threshold risks being a cliff edge which can influence market behaviour and sales values. Valuations are inherently subjective and for those properties on the boundary this may fuel appeals or perceptions of unfairness.
- Although this announcement may be followed by a broader reform of council tax, it does jump ahead of the findings and evidence which may in turn, influence the outcome of the consultation and next steps. We are disappointed to see a council tax reform announced while the consultation is underway and evidence is still being gathered, including cost benefits. This does not provide sufficient challenge and scrutiny and undermines trust in the public consultation process.

## Who we are

ICAS is a leading professional body for chartered accountants with over 24,000 members working across the UK and internationally. Our members work across the private and not for profit sectors. ICAS's Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.