

Struggling to pay council tax: new perspectives on the local taxation debate

Council tax is the subject of an on-going review. Using statistical analyses and interviews with people who had received a summons for non-payment of council tax, Michael Orton from Warwick University explored how many households are struggling to pay council tax, and why. The study looked at whether households in all council tax valuation bands are struggling to pay, and how many low-income households there are in each council tax valuation band. It also examined how people who are struggling to pay experience council tax benefit, and what they see as key issues. The principal findings were as follows:

- It is estimated that more than two million households struggle to pay council tax each year in England; these households predominantly have low incomes and are in low-value properties, not high-value ones.
- In Britain, there are an estimated 181,000 low-income households in bands F-H, but 5.7 million low-income households in bands A-C.
- Interviewees cited low income as the main reason as to why they had received a summons for non-payment of council tax. The largest group of interviewees were in employment, but on low wages.
- Interviewees' experience of council tax benefit focused not on take-up, but on the 'meanness' of the scheme, administrative problems and the sheer complexity of council tax benefit and its interaction with other benefits (including tax credits).
- The researcher concludes that the key policy implications are as follows:
 - concern with low-income households in high-value properties ought not to lead to a failure to address the position of the far greater numbers of low-income households in low-value properties who currently 'lose' in relative terms. This is because council tax is regressive (accounting for a larger proportion of household income for those on low and middle incomes than those on high incomes);
 - discussion of council tax benefit needs to move beyond take-up to give greater consideration to the negative impact of council tax on 'making work pay'.



Background

Council tax has been the British system of local taxation since 1993. Council tax involves properties being valued and then placed in one of eight valuation bands, A to H (H being the highest band). A different amount of tax is payable for each band, with the liability for a band H property being three times that of a band A property. People on low incomes can apply for council tax benefit, a means-tested benefit which reduces the amount of council tax that has to be paid. In 2005-06, the average annual council tax bill in England was £1,009.

Council tax is the subject of an on-going review, and within the current debate four points were of particular relevance to this study:

- Council tax is regressive, meaning that it accounts for a larger proportion of household income for those on low and middle incomes than for those on high incomes. Local tax in the UK accounts for 4.9 per cent of gross income for households in the bottom income quintile, 3.7 per cent for households in the second bottom quintile, falling to 1.7 per cent for the top quintile.
- There has been no attempt as yet to identify how many, and which, households are struggling to pay council tax.
- There is considerable concern regarding the position of people, particularly pensioners, with low incomes in high-value properties.
- There is an emphasis on improving the take-up of council tax benefit in order to make council tax fairer.

To examine these issues and explore how many people are struggling to pay council tax, and why, the study used statistical analyses and interviews with 51 people who had received a magistrates' court summons for non-payment of council tax.

Struggling to pay: how many, and which, households?

It is estimated that over two million households struggle to pay council tax each year in England. Those struggling to pay are predominantly low-income households in low-value properties, not people in high-value properties (see Table 1 and Figure 1). These conclusions are based on the following findings:

- It is estimated that close to three million summonses for non-payment of council tax are issued in England each year.
- Deprivation is a key factor in explaining the number of summonses issued by councils.
- One in four households in band A receives a summons; one in seven in band B; but fewer than one in ten in bands E-H (based on a sample of 22 councils).
- Low-income households in high-value properties are exceptional; households with low incomes in bands F, G and H combined represent 0.7 per cent of all households in Britain.
- It is estimated that 181,450 households in Britain have a low income and live in bands F-H (including 101,008 pensioner households).
- It is estimated that 5,740,833 households in Britain have a low income and live in bands A-C (including 2,898,888 pensioner households).

Council tax, low wages and day-to-day living

Interviewees cited low income as the main reason as to why they had received a summons for non-payment of council tax. The largest group of interviewees were in employment, but on low wages. The struggle to pay council tax formed part of the day-to-day difficulty of making ends meet, despite having a job.

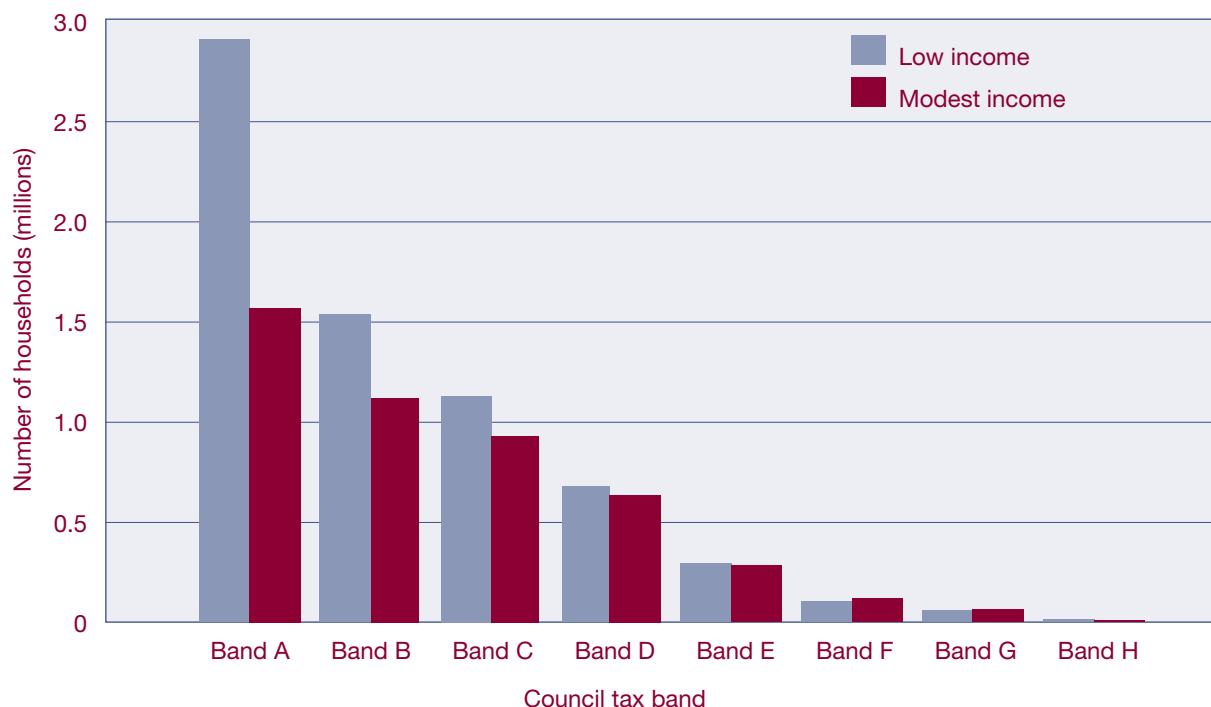
“The problem is my wages [£170 per week]. I just don't earn enough.” (Gardener, male, 20s)

Table 1: **Households in each council tax band by income level, as a percentage of all households in Great Britain**

Income level	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Low	12.4	6.5	4.9	2.9	1.3	0.4	0.3	0.0
Modest	6.6	4.8	4.0	2.8	1.3	0.5	0.3	0.0
Average	5.4	6.8	7.2	5.8	3.1	1.5	0.8	0.1
High	0.9	1.8	3.2	4.2	3.7	2.4	2.1	0.4

Source: Family Resources Survey (percentage values do not sum to 100 because of rounding)

Figure 1: **Number of low and modest-income households by council tax band, Great Britain**



Source: Family Resources Survey

Struggling to pay council tax could also be part of a broader debt problem brought about by a dramatic fall in income.

Examples of summonses being received because of administrative issues and the person's own actions were found in all council tax bands and at all income levels. But low income created vulnerability to missing payments, and meant problems in repaying arrears.

Low income, benefits and pensions

For those in receipt of benefits, the administration of council tax benefit was a problem, as was repaying arrears that were accrued when in employment and before being in receipt of benefits. Questions arise as to the efficiency and fairness of collecting very small amounts of council tax from people in receipt of benefits, particularly Incapacity Benefit. In one case, the summons costs were higher than the interviewee's annual council tax liability.

An interview with a pensioner with a low income in a high-value property identified problems with a diminishing private pension, and suspicion about equity release schemes. Problems experienced by other interviewees with apparently low incomes in high-value properties were more to do with fluctuating income.

Council tax benefit – key issues

Interviewees' experience of council tax benefit focused not on take-up, but on the 'meanness' of the scheme, administrative problems and the sheer complexity of council tax benefit and its interaction with other benefits (including tax credits).

"Council tax benefit ... They couldn't make it more complicated if they tried." (Pensioner, female, 70s)

The key point that interviewees raised was again low income and, despite some of them being in paid employment, the struggle to make ends meet. The administration of council tax at local level, in particular relating to payment methods, was also a significant issue for some interviewees.

"Obviously the main reason I've had problems [paying council tax] is a lack of money and I just feel that the Government ... I mean they are encouraging you on the one hand to go to work and to earn money, but then what they are giving you [in tax credits], they are taking straight back off you in council tax and full rent ... they really need to look into that because it's ... unfortunate ... [sighs]." (Care worker, female, 40s)

Conclusion

The research has provided a new perspective on the debate about local taxation. In particular, it highlights that:

- consideration needs to be given to the position of the estimated more than two million predominantly low-income households in low-value properties who struggle to pay council tax each year;
- attention needs to be given to making council tax fairer by revising the ratio between valuation bands;
- low-income households in high-value properties are exceptional;
- there are far greater numbers of low-income households in low-value properties who, because council tax is regressive, currently 'lose' in relative terms;
- discussion of council tax benefit needs to move beyond take-up – greater consideration needs to be given to the negative impact of council tax on making work pay.

About the project

The project was undertaken by Michael Orton at the Institute for Employment Research (IER), University of Warwick. The statistical analyses were undertaken by Duncan Adam, University of Warwick, and Rhys Davies, formerly of IER and now at the Office for National Statistics. Additional support was provided by Paul Jones at IER.

The research included building a statistical model (a multiple regression model). This drew on an annual survey undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA), published by CIPFA as Revenue Collection Statistics Actuals. Additional data were obtained from a sample of 22 diverse councils. The indicator of deprivation used was the average ward score from the 2000 Indices of Deprivation. The analysis of council tax band and household income used the Family Resources Survey. Income bands were defined as: low income – less than 60 per cent of median income; modest income – between 60 per cent of median income and median; above average – between median and twice median income; high income – more than twice median income. In addition, 51 in-depth interviews were conducted with people who had received a council tax summons.

For further information

The full report, **Struggling to pay council tax: A new perspective on the debate about local taxation** by Michael Orton, is published by the Joseph Rowntree Foundation.

Published by the Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP. This project is part of the JRF's research and development programme. These findings, however, are those of the authors and not necessarily those of the Foundation. ISSN 0958-3084

Read more *Findings* at www.jrf.org.uk

Other formats available.

Tel: 01904 615905, Email: info@jrf.org.uk