CONSULTATION ON THE HIGH VALUE COUNCIL TAX SURCHARGE (HVCTS)

Response by ASocialDemocraticFuture

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ASOCIALDEMOCRATIC FUTURE
asocialdemocraticfuture@outlook.com

Introduction/housekeeping

1. Name of person submitting response: John Newton

2. He is submitting it on behalf of www.asocialdemocraticfuture.org (*ASocialDemocraticFuture*) in his capacity as convener of that organisation.

3. Comments or assessments prefixed by 'we' or 'our' should be taken to mean *ASocialDemocraticFuture*.

4. ASocialDemocraticFuture is a website committed to identifying and analysing policy pathways to equality and efficiency and overcoming obstacles to their realisation. It is independent of external financial and other support.

5. Contact: asocialdemocraticfuture@outlook.com; Tel: 0208 9924887.

Introductory comments

The High Value Council Tax Surcharge (HVCTS) proposes an additional banded (not proportional) levy on properties valued at £2m and above, due to become operative in April 2028.

It is projected, however, according to the Office of Budget Responsibility (OBR), to raise only £400m annually by 2029-30, a relatively fiscally paltry sum; on its own, seemingly hardly worth the effort.

Put bluntly, HVTS, as currently designed, will only scratch the surface of the rank inequity and unfairness of the current Council Tax (CT) system, while raising only token amounts of additional public revenue that will hardly make a dent into the current crisis of local government finance, let alone the overarching Real Fiscal Crisis of the State (RFCS): the mismatch between the public expenditure requirements of the UK (assuming a continuing public desire and demand for accessible and universal public services and social security on the European social democratic model) and the political and electoral willingness for them to be met through forms of taxation that are efficient, sufficient, and transparent.

ASocialDemocraticFuture consequently believes that it should be extended to raise substantially more annual revenue so to generate a greater contribution to the public revenues and to allow a partial reduction of SDLT rates levied on higher valued property transactions subject to the new tax.

This would help to offset its downward price impacts, as well as provide a first step towards a shift towards the adoption of the most economically efficient tax: a Land Value Tax (LVT), encouraging transaction and housing market activity and associated economic and housing system functioning.

A recent detailed and modelled proposal based on the Fairer Shares model by John Muellbauer (*section seven*) targeted to replace Bands G and H Council Tax, would raise upwards of £9bn annually it estimates, while allowing reductions in the top rate of SDLT.

It should be studied carefully in the run up to the 2026 Autumn Budget, especially as it has implications for the development of the deferral arrangements subject to this consultation.

Possible problems include that properties contained in these bands are not now necessarily the most highly valued properties and as proposed could result in substantially higher annual liabilities for near to average priced properties in the more expensive areas in London and other high value areas.

Accordingly, ASocialDemocraticFuture veers to the view that it would seem sensible to retain the best features of HVCTS, namely its focus on the highest valued properties regardless of council tax band and any tax or surcharge should continue to be supplemental and separate to CT for the time being.

We suggest that it should be levied on a proportional percentage basis according to Fairer Shares principles on the proportion of property value valued above £1.5m using the AVM process without a cap. We will publish more detailed analysis and proposals shortly.

The next section specifically responds to the consultation questions with reference to the wider policy context this introduction outlines.

Response to the individual questions

Question 1

Do you agree the legal owner should generally be liable for HVCTS?

Response

Yes, this puts the incidence onto owners rather than tenants and is consistent with a progressive gradual shift towards a Land value Tax (LVT).

Question 2

Do you agree that liability should sit with the leaseholder where the lease has been granted for more than 21 years, or where the law treats a lease as having been granted as such?

No response.

Question 3

Are there forms of leases, within or outside of the categories mentioned above, where different treatment should be considered?

No response.

Question 4

Do you agree that in trust arrangements trustees should be liable for HVCTS?

No response.

Question 5

Do you agree with the proposed income (£35,000) and capital (£16,000) thresholds for deferral?

Response

The (a) to (c) options are overly prescriptive.

Consideration should be given the adoption of a simpler equity-based deferral scheme less subject to strict means testing, perhaps involving an addition to the percentage rate, rather than complex interest rate adjustments, given the need to convert and extend the HVCTS to raise more.

With respect to the suggested defined thresholds, the proposed threshold appears low , unless deferral was considered solely as a social security backstop, rather than a wider mechanism to give current budget relief to homeowners, who, perhaps recently purchased and have encountered a change in financial circumstances.

We suggest an income threshold of closer to £50,000 might be more appropriate.

Question 6

Do you agree that deferral should be available to homeowners who meet the income **or** the savings thresholds?

Response

We suggest that a higher income threshold as proposed above should be the prime qualifying criterion in the absence of a more flexible equity-based deferral scheme that an extended scheme is likely to require.

Question 7

Do you agree with the proposed disability-based criteria, aligned with existing Council Tax criteria?

Response

Greater flexibility to allow for deferment in case of hardship should be included.

Question 8

Can you foresee any circumstances where the proposed deferral scheme is not sufficient? Please provide evidence to support your views.

Response

The qualifying means-tested based conditions as proposed are quite stringent. It would be sensible to provide flexibility to administering LAs to offer deferral in cases where hardship would otherwise result.

Question 9

Do you agree that change of ownership should be the default end point for deferral?

Response

Yes.

Question 10

For deferred payments, what level should the interest rate be set at?

Response

The greater the incidence of deferral, the greater will be the short-term hit on the short-term tax yield.

There is an accordant case for limiting the right to deferral on a strict means-tested basis, which, in turn, implies limits on the interest rate premium charge relative to say, base rate.

However, interest-rate related charge addition can be difficult to understand for those affected and the stricter the means-tested conditions, the more likely there will be cases of non-qualifying hardship.

On the other hand, as per our introductory comments and our response to question five, an extended scheme would suggest a more flexible equity-based deferral model involving differential additional deferral charge rates based on wider eligibility criteria, with the value of charges taken on affected property scored as a financial asset fiscal rule measurement purposes.

Question 11

What additional resources do you anticipate local authorities may need access to in order to deliver the proposed scheme?

Response

LAs will need to be resourced to advise vulnerable eligible households of their options.

Question 12

Do you agree with the proposed property types to be exempted from or discounted under HVCTS?

Response

Care should be taken not to provide perverse incentives to claim exemptions, especially given the value thresholds involved.

Question 13

Noting exemptions will only apply to property types with specific characteristics that are unlikely to change, do you have views on which properties in the proposed list should be exempt and which should be discounted?

Response

As per our response to Question 12 above.

Question 14

Is there a case for providing a discount to tied properties?

Response

A farmer’s residential home should be subject to the tax.

Outbuildings used for commercial agricultural purposes are excluded as non-residential.

Tied cottages for employees can be expected to fall below the value threshold.

Question 15

Is there a case for providing a discount to charities where they meet a charitable purpose test?

Response

Yes, although they should be asked to confirm and explain why the need to occupy a high value property to further their charitable purposes.

Question 16

What types of evidence would it be possible for taxpayers to provide to demonstrate eligibility for relevant discounts?

Response

Insofar that LAs will not keep HVCTS receipts they may have limited incentive to restrict exemption claims, perhaps underscoring that exemptions offered are limited and easily defined and evidenced.

Question 17

What additional resources (for example, extra information) do you anticipate local authorities may need in order to assess eligibility for a discount?

Response

As per our response to Question 16.

Question 18

Do you have views on the proposed system of penalties set out above? What else would most help local authorities administer HVCTS efficiently?

Response

Yes, we agree given the values involved, penalties should be increased and made more proportionate to potential revenue foregone.

Question 19

Noting the need to balance fairness with incentivising the provision of accurate information, do you have views on whether the penalty outlined in this section is sufficient?

Response

The penalty should be proportionate to the breach, depending on whether wilful or inadvertent, and should be percentage-based.

Question 20

Would allowing LAs to apply a penalty to other individuals (such as managing agents) to support compliance with information requests help identify hard-to-find owners? If so, what would an appropriate penalty level be?

Response

Yes, in accordance with response to Question 19 above.

Question 21

Do you have any evidence on the housing market impacts of non-UK resident owners in high pressure housing markets?

Response

This is a wider housing policy research question. It is surprising that MHCLG has not conducted or commissioned *research on the topic.*

At one level, non-resident owners occupy a property that otherwise would be available for domestic occupation. Sometimes, when bought for investment purposes, they are left empty. It certainly would be helpful to have more precise and accurate information on this.

A contrary argument is that non-residents provide a source of demand for new property, which, if constrained further in high value areas such as London, could further discourage new building and supply and result in future chain letting opportunities foregone.

Our view is on balance a needs-based housing requires focus on the provision of affordable housing rather than high value properties that generate limited filtering additional vacancy impacts.

It is one of the prime reasons, why we believe that the scope of HVCTS should be converted and extended into a proportional percentage tax, including additional percentage additions on additional homes and non-resident owners, that potentially generate substantial additional public resources, some of which could be used to invest directly into additional affordable housing.

Question 22

Do you think the government should explore charging additional High Value Council Tax Surcharge premium on non-UK resident owners of homes liable for the tax? Please explain your answer.

Yes, as per response to Question 21 above.

Question 23

What do you think the potential impacts of such a premium could be?

Response

Yes, as per response to Question 21 above. More general additions on additional properties and non-UK residents may result in sales of Buy-to-let property and conversions into owner occupation.

Arguably such an outcome would be in accord with the purposes of the surcharge. A percentage property tax as we propose would allow reductions in top end Stamp Duty Land Tax (SDLT) that should encourage transaction activity with attendant housing market and wider economic benefits.

Question 24

How easy or difficult do you think it would be for owners to obtain and provide the evidence needed to support a band challenge (for example, similar properties with different bands, or sales information for similar properties from 2026)?

Response

We are concerned that one of the problems with a banded scheme is that it will encourage appeals bunched around band borders.

An alternative percentage tax could relieve that problem. Incentives could be offered to owners to accept valuations in the first year by offering a discount of, say, five per cent on the charge payable.

Question 25

Do you agree sharing information earlier in the dispute process about property banding would help to resolve disputes?

Response

See response to Question 24 above.

Question 26

What would help homeowners feel confident that a challenge or appeal has been handled fairly and independently, even where the decision is not changed?

Response

As per response to Question 24, it would be better to incentivise liable owners to accept valuations as part of a move to a percentage rather than banded structure.

Question 27

Do you agree with the approach that homeowners should be able to appeal the VO banding and alterations decision and local authority's decision on liability to the Valuation Tribunal?

Response

A major design flaw of HVCTS is that it could result in many resource-consuming appeals for relatively little annual additional public resource return.

This reinforces our argument for its scope to be and converted into a more progressive percentage property tax as per our response to Question 24.

Question 28

Councils will require powers to enforce payment of the tax. Do you agree powers should align to those currently available in Council Tax?

Response

Yes.

Question 29

Do you have views on whether any of the proposals in this consultation will have any disproportionate impacts on persons who share a protected characteristic?

Response

Given the value threshold involved, save that as per our response to Question 10, deferral arrangements could be made more flexible to accommodate cases of possible hardship, that are likely to be concentrated in some protected characteristic groups.

A converted an extended percentage property tax would generate additional public resources that could be used to fund public services in support of vulnerable groups.