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BULLETIN

'Wealth rich but income poor'?

Council tax and the relationship between household income and property value

Warwick IER is one of Europe's leading centres for labour market and related studies, with its research including a broad range of issues concerning employment, socio-economic change and social policy analysis. This Warwick IER *Bulletin* summarises findings from research* into local taxation which is currently the subject of on-going debate. The research summarised in this *Bulletin* addressed two questions: (1) what is the relationship between household income and property value for owner-occupiers? and (2) is there evidence of people living in high value properties having low incomes i.e. being 'wealth rich but income poor'?

Key findings

- **For owner-occupiers there is in overall terms a clear and positive relationship between household income and property value**, with only limited exceptions.
- **There is a particularly strong relationship between income and property value for owner-occupier households with higher levels of income.**
- **Searching for a 'perfect' relationship between household income and property value is misplaced,** because it ignores the complexity of individual choice and circumstance.
- **Indicative estimates suggest 6% to 10% of owner-occupier households in the four higher council tax valuation bands (E to H) have a low income, with this equating to 2% of all owner-occupier households;** most of this group are pensioner households**.**
- **It is estimated that more owner-occupier pensioner households in council tax bands E to H have high incomes than low incomes;** in Bands G and H it is estimated that that there are more owner-occupier pensioner households with high incomes than low and modest incomes combined.
- **The impact of council tax rises on the small number of owner-occupiers on low incomes in high value properties should not be underestimated**, but the issue is further complicated because significant numbers of such households have savings and investments of over £20,000.
- **In Bands E to H there are far larger numbers of owner-occupier households with high incomes than low and modest incomes combined,** and for high income households council tax can represent a very minimal proportion of income.
- **The research has implications for:** the prominence given to the 'wealth rich but income poor' in debates about local tax; the issue of whether council tax is regressive; and the council tax benefit system.

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Background: council tax and fairness

Council tax is currently the focus of considerable debate with the high-level *Balance of Funding Review* having reported in July 2004 and a further review to be conducted by Sir Michael Lyons. A particular issue is the fairness of council tax. There is a concern that council tax may be regressive, due to the current ratios between council tax bands. After allowing for discounts and council tax benefit, local tax accounts for 4.6% of gross household income for those in the bottom fifth of the income distribution, 3.4% for those in the second bottom fifth, falling to 1.6% for those in the top fifth of the income distribution.[1] An equal concern, however, is that people in high value properties may in fact have low incomes. This is often referred to as people, and particularly pensioners, being 'wealth rich but income poor'. What underpins these concerns is the question of ability to pay council tax. Because council tax is principally property-based, this raises the question of the relationship between household income and property value.

The importance of the issue of people being 'wealth rich but income poor' and the relationship between household income and property value was highlighted in the 2001 local government White Paper, *Strong Local Leadership – Quality Public Services*, when in response to concerns about regressivity it was noted that "There are many pensioners on low and fixed incomes in high value properties" and "There has been no systematic gathering of evidence on the relationship between property values and incomes". The *Balance of Funding Review Report* has also noted these issues.

The focus of the research summarised here was on high value owner-occupier properties. 'High value' was defined as the four higher council tax valuation bands (E-H). Bands E-H include a little under 20% of all properties. Rented properties were excluded from the analyses but it should be noted that in excess of 90% of properties in Bands E-H are owner-occupied.[2]

The relationship between household income and property value

A key finding from this study is that for owner-occupiers there is overall a clear and positive relationship between household income and property value, with only limited exceptions. The relationship is particularly strong at higher levels of income. This finding is illustrated by Figure 1 which shows the relationship between income and relative property value for couple households. The positive relationship between household income and property value remained consistent when using different measures of property values, and was the same for couple and single households.

The main exception to the positive relationship between household income and property value is at the lower end of the income distribution. This means there is some evidence of people with a low weekly income living in properties of a relatively higher value. As Figure 1 illustrates, there is evidence of a U shaped relationship between gross household weekly income and property values at the lower end of the income distribution. Analysis showed that households within this category have a high incidence of self-employment.

The positive relationship between household income and property value holds true across varying age groups, although there is a slightly different relationship for pensioner households. Pensioner households generally have a lower income than non-pensioner households so any given increase in income for a pensioner household is associated with a steeper increase in property value compared to non-pensioner households.

Figure 1: Income and relative property values – couple households (average imputed values by council tax band)

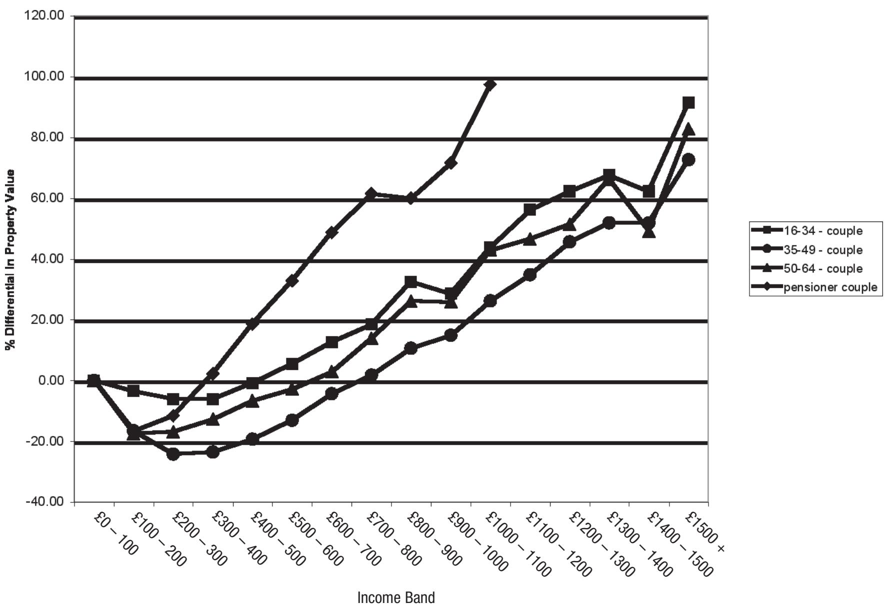

Table 1: Percentage of owner-occupier households within the higher value council tax bands (E-H) by income level

	Band E	Band F	Band G	Band H	Total for all bands (A-H)
Low income	10%	8%	6%	8%	16%
of which pensioners	67%	59%	50%	55%	67%
Modest income	11%	8%	6%	3%	16%
of which pensioners	67%	63%	62%	*	52%
High income	51%	59%	70%	75%	33%
of which pensioners	6%	13%	17%	20%	6%

* Estimate not shown due to small sample size

Exceptions to the averages: households with low incomes in high value properties

A further key finding of the research is that the number of households who have a low income but live in a high value property appears to be quite limited. This finding is demonstrated in Table 1. Table 1 provides a comparison, by council tax band, of the incomes of the owner-occupiers in this study with average income figures from the Department for Work and Pensions *Households Below Average Income* report which also includes rented properties; (an analysis based only on owner-occupiers risks over-stating income levels). The estimates summarised here are therefore indicative rather than definitive. For clarity, 'low income' is defined as below 60% of average (median) income; 'modest income' is between 60% of average and average income itself; 'high income' is more than twice average income. Key points to highlight are:

- 6% to 10% of owner-occupiers in Band E-H properties are estimated to have a low income, with most being pensioners;
- in Band E more than twice as many owner-occupier households are estimated to have high incomes than low and modest incomes combined, rising in Band H to nearly seven times as many owner-occupier households having high incomes than low and modest incomes combined;
- in Bands E and F it is estimated that more owner-occupier **pensioner** households have high incomes than low incomes; and in Band G it is estimated that more owner-occupier **pensioner** households have high incomes than low and modest incomes combined (comparable data are not available for Band H on this point).

Further analyses found that:

- the largest identifiable group of non-pensioners in Bands E-H with a low income are the self-employed;
- as an indicative estimate, owner-occupier households on a low income in Bands E-H equate to 2% of all owner-occupier households; owner-occupier households in Bands E-H with a high income are estimated to equate to 14% of all owner-occupier households.

Of those owner-occupier households in Bands E-H who have a low income, significant numbers (and within some council tax bands most) have assets of at least £20,000. This means that they are unlikely to receive council tax benefit. Table 2 demonstrates this. Estimates suggest that:

- between 39% and 57% of pensioner owner-occupier households in Bands E-G who have a low income, have savings and investments of over £20,000; and between 35% and 62% of non-pensioner owner-occupier households in Bands E-G who have a low income, have savings and investments of over £20,000 (comparable data are not available for Band H on this point).

Table 2: Percentage of pensioner and non-pensioner owner-occupier households with savings and investments of over £20,000, by council tax band and low and modest income (insufficient sample sizes to include Band H)

	Band E	Band F	Band G	Total for all bands (A-H)
Non-pensioner households on low income	35%	44%	62%	20%
Non-pensioner households on modest income	43%	40%	56%	17%
Pensioner households on low income	39%	46%	57%	23%
Pensioner households on modest income	58%	64%	76%	42%

Illustrative examples

The statistical analyses were further illuminated by findings from in-depth interviews with occupiers of 60 properties in Bands E-H. Illustrative examples demonstrated that:

- the severity of the impact of council tax rises on the small number of people on low incomes in high value properties should not be underestimated; one single pensioner interviewee in a Band E property had to pay a council tax bill of £103 per month from a net weekly income of £123;
- for people with high incomes in high value properties, council tax can represent a very minimal proportion of household income;
- at the level of the individual household, choice and circumstance ranging from people moving from property hot spots to lower value areas, inheritance, unemployment, relationship breakdown, 'downsizing', as well as growing older, all mean that trying to determine a 'perfect' relationship between income and property value is misleading.

On a slightly separate point, what was notable amongst this small sample of interviewees was a lack of consensus as to how local tax should be reformed. What was apparent was a strong sense of 'disconnection'[3] between council tax paid, service provision and local democracy.

Conclusion

The research summarised here has several implications for the debate about the reform of local tax, but three particular issues stand out. First, the relationship between household income and property value is perhaps stronger than is sometimes thought to be the case. While individual choice and circumstance mean seeking a 'perfect' relationship between household income and property value is misplaced, property value may in overall terms remain a not unreasonable indicator of income level. Second, the problem of people living in high value properties having low incomes may not be as extensive as is sometimes believed to be the case. These two points mean there are implications for the prominence currently given to the 'wealth rich but income poor' in debates about local tax. In the light of findings regarding the greater numbers of households with high rather than low incomes in Bands E-H, the research would also appear to support concerns about regressivity and the current ratios between council tax bands.

Third, the research has implications for the council tax benefit scheme. The severe impact of council tax rises on the small number of people with low incomes in high value properties should not be underestimated. The significant numbers of such people with assets of over £20,000 suggests the problem is not simply one of people failing to claim council tax benefit, but is about the more fundamental structure of the benefit. The predominance of pensioners within this group of people with low incomes in high value properties also raises more general issues about pension levels,[4] whether home ownership in old age is a 'benefit or a burden'[5] and wealth over the lifecycle.[6]

About the research

This project researched two inter-connected issues: local taxation and citizenship (a separate findings paper on citizenship is available at the Warwick IER website). There is no dataset which provides for a direct analysis of the relationship between household income and property value, due to a lack of information about current property values. The research therefore drew on a number of different sources including the *Family Resources Survey* (FRS), the *Survey of English Housing*, Land Registry data and CACI Limited 'PayCheck' and 'StreetValue' datasets for the West Midlands. The analyses presented in this note are based upon data collected from respondents to the FRS over the period 1998/9 to 2001/2. The sample was restricted to owner-occupiers living in single benefit unit households. Three different measures of property values were used: (1) the mid-points of council tax bands (2) average imputed values of current house prices by council tax band and (3) current imputed house price. Measures (2) and (3) were based upon the results of a multivariate analysis that inflated recorded house purchase prices to 2001 levels. Comparison with Land Registry data demonstrated the model to be a 'good fit'. In-depth interviews with occupiers of 60 properties in Bands E to H were conducted in a number of diverse geographical settings in the West Midlands including an inner-city area, suburban estates, a property hot spot and a rural area. Working papers explaining in detail the research methodology are available at the Warwick IER website.

Notes

1. Lakin, C. (2004) 'The effects of taxes and benefits on household income, 2002-03' *Economic Trends 607* London: Office of National Statistics.
2. Office of the Deputy Prime Minister (2003) *Housing in England 2001/2: A report of the Survey of English Housing* London: ODPM.
3. Fabian Society (2000) *Paying for Progress: A New Politics of Tax and Public Spending* London: Fabian Society.
4. Kenway, P. and Pannell, J. (2003) *The impact of council tax on older people's income* London: Help the Aged.
5. Hancock, R., Askham, J., Nelson, H. and Tinker, A. (1999) *Home-ownership in later life: Financial benefit or burden?* York: YPS.
6. Rowlingson, K., Whyley, C. and Warren, T. (1999) *Wealth in Britain: a Lifecycle Perspective* London: PSI.

For related Warwick IER research, for example into earnings, older workers and the geography of incomes, see the IER website (www.warwick.ac.uk/ier).