Office for Budget Responsibility

2 April 2026

Supplementary forecast information release

Costing of high value council tax surcharge

1.1 The OBR is releasing this information following a request for further detail in respect of the costing of the policy announced at Budget 2025 to introduce an annual charge for properties valued over £2 million from April 2028. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.

1.2 This release briefly describes the measure, sets out the data sources and modelling used to estimate the costing, and discusses the main sources of uncertainty around this central estimate, following the OBR's policy costings process.[1] As set out in the *Charter for Budget Responsibility*, the Government is responsible for producing all policy costings. In the case of tax policies the costings are typically produced by HMRC. The OBR's role is to provide independent scrutiny and certification of whether the Government's policy costings are reasonable and central. This means that the full datasets underpinning tax policy costings are generally held by HMRC. Therefore, requests for access to any datasets not available at the sources referenced in this note should be directed to HMRC.

Policy description

1.3 From April 2028, owners of properties in England identified as being valued at over £2 million by the Valuation Office (in 2026 prices) will be liable for a recurring annual charge additional to their existing council tax liability.[2] There will be four price bands with the surcharge rising from £2,500 for a property valued in the lowest £2 million to £2.5 million band, to £7,500 for a property valued in the highest band of £5 million or more, all uprated by CPI inflation each year. The revenues will flow to central government, rather than remain with local government as is the case for standard council tax.

Data

1.4 To estimate the tax base for the number of properties in England valued above £2 million in 2026 prices several data sources are combined. Commercial data on estimated property valuations provides an Automated Valuation Model (AVM) estimate of property values across England based on property characteristics and mortgage survey data. This is then adjusted to align with stock estimates from council tax base statistics and stamp duty land tax (SDLT) transactions data to ensure that the number of high-value properties over £7.5 million are not underestimated in the tax base. Current council tax bands will not influence

[1] See our *Briefing paper No.6: Policy costings and our forecast*, March 2014.
[2] For more detail on the policy see HM Treasury, *Policy Costings Document*, November 2025.

whether a property is liable for this additional charge, but the Valuation Office AVM provides a proxy for the number of high-value properties that sit in bands F, G and H.

1.5 The costing assumes that some current council tax exemptions will apply, as well as exempting Registered Social Landlords.[3] SDLT transaction data on the share of residential transactions for high-value properties which claim charities relief; data from the Ministry of Housing, Communities and Local Government (MHCLG) on the number of properties owned by social landlords valued above £2 million; and council tax statistics on the number of properties relieved by other relevant exemptions are all used to remove properties from the base which are assumed to be relieved or exempt from the tax. Overall, this reduces the number of properties subject to the tax, based on 2025 values, by 2.5 per cent.

Modelling

Static costing

1.6 The tax base is projected in line with the OBR's November 2025 residential property price forecast, as well as a new-build growth assumption of 0.4 to 0.6 per cent per year, based on Land Registry data on the number of high-value new build properties constructed per year, adjusted for the OBR's new build assumptions.[4]

1.7 The overall estimate of the tax base is that 165,000 properties will be subject to the tax in 2028-29, before accounting for any behavioural impacts.

Table 1.1: Estimated properties in scope by band, static

	Thousands		
	Forecast		
Price band (£m)	2028-29	2029-30	2030-31
2.0 to 2.5	71	72	72
2.5 to 3.5	54	55	55
3.5 to 5.0	25	25	25
Over 5	15	15	15
Total estimated properties in scope	**165**	**166**	**167**

Source: HMT, OBR

1.8 To estimate the static costing, the projected number of properties in each value band is multiplied by the charging structure in each year.

Behavioural response

1.9 The following behavioural responses were considered sequentially within the costing:

[3] The costing assumes that Registered Social Landlords will be exempt from the tax, in addition to hospitals, hospices and care homes, prisons, hotels, purpose-built student accommodation, residential accommodation for the armed forces, accommodation for visiting armed forces, diplomatic premises, properties qualifying for the severe mental impairment exemption from council tax, properties left empty to due death or long-term care, empty/occupied annexes and properties owned by charities. These were a baseline set of exemptions taken from Council Tax. The government has stated that it is consulting on reliefs and exemptions and that this therefore should not be assumed to be the final policy position, which will not be determined until post-consultation.

[4] OBR, *Economic and fiscal outlook,* March 2025, paragraphs 3.36 to 3.37.

1.10 **Price capitalisation effect:** We assume over time there will be full pass-through of the cost of the surcharge into the prices of the liable properties.[5] To model this, the costing calculates the net present value (NPV) of the annual charge with a discount rate of 5 per cent and assuming the annual charge continues indefinitely. The resulting price adjustment is phased in gradually to reflect the time required for markets to adjust, reaching 100 per cent pass-through from 2028-29 onwards. This reduces the number of properties subject to the charge by 3.8 per cent in 2028-29.

1.11 **Price bunching below each band boundary:** The banded design of the surcharge creates discontinuities in the tax schedule, which is expected to influence buyer behaviour. Purchasers are likely to avoid paying just above a band threshold to avoid paying a higher annual charge. This costing assumes bunching elasticities of 1.0 to 1.25, meaning all properties which would have been priced between the lower threshold and the lower threshold plus 1.25 (or 1 for higher thresholds) multiplied by the NPV of the tax are assumed to bunch to the lower band. The assumed elasticities are based on research into bunching around SDLT thresholds adjusted to reflect the smaller impact of credit constraints of a recurring tax compared to an upfront transaction tax.[6] These elasticities are used to estimate a value range above the thresholds for which properties would see price drops additional to the capitalisation effect. This reduces the number of properties subject to the charge by a further 1.5 per cent in 2028-29 due to properties shifting between bands to simulate clustering of property prices below thresholds.

1.12 The costing considers potential **supply-side responses** to this surcharge. There may be a reduction in the delivery of high-value new builds as housebuilders adjust their output to reflect the impact of the tax on their expected returns. This would result in fewer properties liable for the charge and a compensating increase in lower-value homes. There is also an incentive to split larger properties into multiple dwellings to avoid being liable for the tax. Analysis of Scotland's 2017 council tax reforms, which increased rates for higher bands by up to 22.5 per cent, showed no reduction in new property growth rates in bands G and H, and no evidence of properties splitting.[7] The high-value council tax surcharge represents an increase equivalent of more than 22.5 per cent of council tax for most affected taxpayers. Therefore, this costing assumes a small reduction in the new-build rate for properties above the threshold, which reduces the number of properties subject to the charge by a further 0.2 per cent in 2028-29.

1.13 Other behaviours include expected **non-compliance and appeals**, as well as adjustments to account for the support scheme. The Government has announced a consultation on the details of the reliefs and exemptions, the design of an appeals system, and the deferral and support mechanisms that will be available. The costing was modelled using a set of

[5] The assumption of 100 per cent capitalisation is based on the Efficient Market Hypothesis which states that predictable future liabilities are capitalised into asset values. See Giertz, S.H., R. Ramezani, and K.J. Beron, 'Property tax capitalization, a case study of Dallas County', *Regional Science and Urban Economics*, 2021; Coste, J. 'Capitalization of Property Tax Incentives: Evidence From Philadelphia', *FHFA Staff Working Papers,* 2024; and Smith, O., O. Palmon, and B.A. Smith, 'New Evidence on Property Tax Capitalization', *Journal of Political Economy,* 2025.

[6] Best, M. C., and H. J. Kleven, *Housing market responses to transaction taxes: Evidence from notches and stimulus in the UK*, London School of Economics, 2017.

[7] Based on HMRC analysis of Scottish Government Council tax datasets. See Scottish Government, *Council tax datasets,* March 2024.

assumptions for the final design of the support scheme, compliance approach and appeals process. If the outcome of the consultation results in a design that is different from these assumptions which materially affects the expected yield of the measure then we will adjust the costing at a future fiscal event.

- Non-payment is assumed to be 2 per cent, which is lower than the current 4 per cent rate of non-payment for council tax to avoid double counting the impact of those who are unable to pay the charge. Given that owners, rather than occupiers, are liable for the tax, the costing assumes a higher level of non-compliance. SDLT data shows that around 40 per cent of properties liable to the tax are non-owner-occupied, and 10 per cent of these properties are assumed to not pay the charge, resulting in an assumption of an additional 4 per cent non-payment due to second homes. This reduces the expected yield by 6 per cent.

- The share of households unable to pay is estimated using data from the Wealth and Assets Survey on income and financial assets. The Wealth and Assets Survey does not have sufficient sample size to allow analysis of properties exceeding £5 million, but owners of these properties are assumed to have greater income and therefore a greater ability to pay the charge. The costing first assumes that of the properties between £2 million and £5 million, one-third of households, excluding households who are assumed to use the support scheme, cannot pay using their income if the charge exceeds 10 per cent of their net household income. Of these, the costing assumes one-third can instead use financial assets to pay the charge; and of the remaining two-thirds, 16 per cent who cannot pay with either income or financial assets will sell their property. This is based on current churn over a three-year period with an uplift for additional sales incentivised by the charge. Non-UK resident property owners (14 per cent of properties impacted by the charge) are assumed to be high-wealth owners and able to pay the charge. Overall, inability to pay adjustments reduce the yield by a further 1 per cent.

- This costing includes provisional assumptions on an appeals process similar to the current council tax and business rates process, which is assumed to be utilised by taxpayers at the lower end of each band. The appeal rate may vary across bands due to differing band widths, so 20 per cent is considered a central estimate for a provisional modelling assumption.[8] The success rate of these appeals is provisionally assumed to be 40 per cent due to narrow bands and higher-value properties than for council tax. Successful appeals under this scheme are assumed to reduce the costing by a further 4 per cent.

- The Government has announced a consultation on the **targeted support scheme** that will be available, but as a provisional analytical assumption, the costing assumes that households with net income under £30,000 per year will be able to use the support scheme, rather than contributing to the group of households unable to pay the charge.

[8] Estimates of appeal rates in this costing are based on evidence from reforms to council tax in 1991 which resulted in appeal rates of approximately 6 per cent, and evidence of 40 per cent appeal rates for the initial appeal stage of the 2017 business rates list.

The Wealth and Assets Survey provides an estimate of the share of households eligible, and the costing assumes a 75 per cent take up rate from the eligible households, resulting in a 9 per cent reduction in revenue due to the support scheme.

Table 1.2: Estimated properties in scope by band, post-behaviour

Price band (£m)	Thousands		
	Forecast		
	2028-29	2029-30	2030-31
2.0 to 2.5	66	66	67
2.5 to 3.5	53	53	53
3.5 to 5.0	24	24	24
Over 5	14	14	14
Total estimated properties in scope	**156**	**157**	**158**

Source: HMT, OBR

1.14 This costing also has **impacts on other tax heads**, which are considered through both price and transaction impacts:

- The behavioural price effect reduces the value of high-value properties, which in turn lowers liabilities across other property-related taxes: SDLT, capital gains tax (CGT), inheritance tax, annual tax on enveloped dwellings, and block grant adjustment impacts.

- The change in the number of transactions as a result of this policy will impact both SDLT and CGT for non-primary residences. This is due to increased churn pre-implementation driven by sales from households who are unable to afford the tax, and post-implementation driven by households downsizing to reduce their liabilities. The costing also assumes a 1.5 per cent reduction in transaction volumes before valuations are complete due to uncertainty, and a reduction of 1 to 2 per cent baseline transactions in the three years following announcement of the charge due to loss aversion.

- The impact of the change in transactions on SDLT and CGT receipts is calculated by multiplying the change in transactions by price band by average SDLT and CGT liabilities per transaction. For CGT, the costing assumes only properties which are not primary residences pay CGT due to private residence relief.

Table 1.3: Key parameters

Parameter	Value	Description
High value council tax surchage rates		
Property value £2m to £2.5m	£2,500	Annual charge on properties in this band
Property value £2.5m to £3.5m	£3,500	Annual charge on properties in this band
Property value £3.5m to £5m	£5,000	Annual charge on properties in this band
Property value over £5m	£7,500	Annual charge on properties in this band
Tax base		
New-build growth assumption (per cent)	0.4 to 0.6	Annual high value new build growth assumption
Key behavioural assumptions		
Discount rate (per cent)	5	Discount rate used to calculate the net present value of the annual charge
Price capitalisation rate (per cent)	100	Assumed pass-through of the charge to house prices from the third-year of the charge
Bunching elasticities	1.0 to 1.25	Elasticities used to estimate a value range above a threshold for which properties would see price drops additional to the capitalisation effect
Reduction in new-build rate for properties above the threshold (per cent)	10	Supply impact on properties above the £2m threshold
Non-payment rate (per cent)	6	Assumed non-payment rate of charge given rates of non-owner-occupied housing liable
Inability to pay (per cent)	1	Assumed proportion of households unable to pay the charge.
Appeal rate (per cent)	20	Central estimate of appeal rate of the charge
Appeal success rate (per cent)	40	Proportion of appeals that are successful
Reduction in revenue due to the support scheme (per cent)	9	Support scheme assumed to be used by households with net income under £30,000
Average change in transactions pre-implementation	-90	Estimate of yearly average change. Sales are driven by households unable to afford the tax, and offset by uncertainty effects
Average change in transactions post-implementation	270	Estimate of yearly average change. Captures discretionary downsizing by households to reduce liabilities

Source: HMRC, OBR

Table 1.4: OBR determinants used in costing

	Forecast				
	2026-27	2027-28	2028-29	2029-30	2030-31
CPI year-on-year growth (per cent)	2.2	2.0	2.1	2.0	2.0
House price index (Jan 2015=100)	105	109	111	114	117

Source: OBR

Final costing

1.15 The central estimate for the costing is a slight decrease in revenue before the charge is implemented as a result of other tax head impacts, then an increase in revenue of £0.4 billion from 2028-29. The behavioural impact reduces the static yield by around a third.

Table 1.5: Costing of high value council tax surcharge

	£ million				
	Forecast				
	2026-27	2027-28	2028-29	2029-30	2030-31
Static costing	**0**	**0**	**-605**	**-620**	**-635**
Behavioural response	120	155	205	190	200
of which:					
Price capitalisation, bunching, and supply impacts	0	0	30	30	30
Compliance, appeals and support scheme adjustments	0	0	120	125	125
Other tax heads impact	120	155	55	35	45
Post-behavioural costing	**120**	**155**	**-400**	**-430**	**-435**

Note: This table uses the convention that a negative figure means a reduction in PSNB. The figures used to calculate these impacts have been rounded to the nearest £5 million.
Source: HMT, OBR

1.16 This policy costing was assigned a 'high' uncertainty rating.[9] There is a very high level of uncertainty over the size of the tax base and a moderate level of uncertainty around the impact of the tax on property prices and the impact of non-compliance, appeals and the support scheme.

[9] See the 'Policy costings uncertainty ratings database – November 2025' spreadsheet at OBR, *Policy costings*, November 2025.