

# The Highland Council

Agenda Item	17
Report No	HC/36/23

**Committee:** The Highland Council

**Date:** 14 September 2023

**Report Title:** Scottish Government Consultation: Council Tax second Homes and Long-Term Empty Properties, and Non-Domestic Rates Self-Catering Units

**Report By:** Executive Chief Officer, Communities & Place

## 1. Purpose/Executive Summary

- 1.1 The Scottish Government has consulted on the potential of extending Local Authorities' discretionary powers to increase local taxation charges for Council Tax Second Homes and Long-Term Empty Properties. The consultation also seeks views about potential changes to the legislation applicable to Second Homes and Long-term Empty Properties, and Non-Domestic Rates Self-Catering Units. The policy intent of these proposals is to increase the supply of housing for occupation as sole or main residences.
- 1.2 The submitted response is detailed at Appendix 1 to this report. The response is largely technical in nature and supports the need to increase housing supply in areas of identified need. The strategic direction, and some of the key policies and plans set out in the Highland Local Housing Strategy are also highlighted. The response also emphasises the need to impact assess all proposed changes to local taxation in the round rather than considering a single policy change in isolation.

## 2. Recommendations

- 2.1 Members are asked to:
  - i. Consider the policy matters raised in this consultation;
  - ii. Agree by homologation the response detailed in Appendix 1 to this report.

## 3. Implications

- 3.1 Resource - If implemented, increased local taxation charging and legislative changes may have a resource impact on the Revenues & Business Support section if it leads to an increase in the level of recovery activity. Increased charging provides the potential for increased revenue for the Council and the additional income will be dependent on a number of factors including the level of increased charging, collection rates and impact the policy change has on the use of properties (such as described in more detail at 3.3).

- 3.2 Legal - The proposals relating to Council Tax Second Homes and Long-Term Empty properties, if enacted, may provide Local Authorities with the discretion to increase the amount charged for those properties designated as such. Proposals for Non-Domestic Rates Self-Catering Units may result in legislative change that will determine the approaches that Local Authorities must implement. There is also a possibility that Local Authorities' discretionary powers could be extended to include self-catering units.
- 3.3 Community (Equality, Poverty, Rural and Island) - The policy intent of the Scottish Government's consultation is to increase the supply of housing for sole or main residences, thus addressing these community impacts. The consultation included questions about rural and island impacts where the need to strike the balance between sustained employments and suitable housing is more acute.
- 3.4 Climate Change / Carbon Clever - There are no Climate Change/Carbon Clever impacts directly arising from this report. The submitted response suggested the reintroduction of non-repayable home improvement grants to enable second homes and long-term empty properties to be modernised and upgraded to standards appropriate for sole or main residences.
- 3.5 Risk - There is a risk that this policy proposal is considered in isolation from other related proposals for change, including changes to Council Tax multipliers, and as a result the cumulative impacts are not fully assessed or understood.

There is a further risk that increases and changes to local taxation have negative impacts on collection rates and are therefore detrimental to this important revenue stream for the Council. There is also a risk that there is a mismatch between the areas with housing need and the locations of second homes, long-term empty properties and self-catering units.

Prior to implementation of any changes that may result in increased charging, the economic and other impacts will need assessed and considered.

- 3.6 Health and Safety (risks arising from changes to plant, equipment, process, or people) There are no Health and Safety impacts directly arising from this report.
- 3.7 Gaelic - There are no Gaelic impacts directly arising from this report.

## **4. Background**

- 4.1 In Highland there is an insufficient supply of secure and affordable housing for sole and main residences. This can have many negative impacts, including on people's health, educational outcomes, and ability to secure sustained employments. A lack of suitable housing may also result in depopulation in some geographical areas of Highland and make repopulation more challenging.
- 4.2 A lack of housing is impacting business' abilities to fill job vacancies, to operate and to expand, as potential applicants cannot find suitable housing. Some businesses report they are taking out mortgages to purchase properties to help mitigate this barrier.

## **5. Council Tax Second Homes**

- 5.1 The current definition of a Second Home for Council Tax purposes, is, 'a dwelling which is no one's sole or main residence and that is lived in for at least 25 days during the 12-month period of the Council Tax charge'. The consultation sought views about

this definition. Officers supported the status quo as it is easily understood and can be evidenced by taxpayers subject to second home charging without incurring cost burdens. It is also administratively light for Local Authorities.

- 5.2 Within the Highland Council area there are 123,100 domestic dwellings entered on the Council Tax List, of which 3% or 3,738 are recorded as second homes and therefore subject to a 100% charge per annum; this being the maximum charge permitted by legislation. At the time of writing, the gross billed for 2023/24 is £2.9m.
- 5.3 The existing legislative powers to charge up to 100% are intended to reflect that second homeowners contribute to local economies through spend in local shops, restaurants, local tourism activities, and to maintain their properties, thereby helping to sustain employments across many sectors, including for example, tourism, retail and the trades.
- 5.4 In the submitted response, additional discretionary powers were sought to enable Local Authorities to charge up to a further 100% Council Tax for Second Homes, which would provide Local Authorities with the discretion to charge up to 200% Council Tax for these properties. Increases above the existing 100% charge are referred to as premiums.
- 5.5 Exemptions and charging delays are already provided for and are necessary to ensure that the 100% charge is applied appropriately.
- 5.6 From a policy perspective, there are several options available. For example, any premium could be applied only where an individual is responsible for payment of Council Tax on multiple second homes, without increasing the charge for those with one second home. Alternatively, there may be scope to have different premium rates, one lower premium rate for those with responsibility for one second home, with an increased premium rate for those with multiple second homes. Furthermore, premiums or higher premiums could be applied only where there are housing pressures. These examples are not intended to be exhaustive.

## **5. Council Tax Long-Term Empty Properties**

- 5.1 Of the 123,100 domestic dwellings in Highland, 2.6% or 3,200 are registered as long-term empty properties and subject to a 200% Council Tax premium. As with the provisions for second homes, exemptions and charging delays are already provided for. At the time of writing, the gross billed for 23/24 is £3.5m.
- 5.2 No additional discretionary powers were sought in the submission to increase charging on the basis that limiting the premium to 200%, may enable and encourage owners of long-term empty properties to upgrade their properties to a standard suitable for mainstream housing.

## **6. Non-Domestic Rates Self-Catering Units**

- 6.1 In Highland, during 2022/23, 5,243 properties were registered in the Valuation Roll as Self-catering Units and therefore subject to Non-Domestic Rates (NDR) with a total liability of £6.9m. 4,708 of these units received £5.9m of relief from Non-Domestic Rates.
- 6.2 Although 100% relief from NDR is available, operators of self-catering units are required to pay for commercial waste collections, and commercial water and waste

water charges. They are also required to hold short term lets licences which are also chargeable and, in some cases, may require planning permission.

- 6.3 Other than the status quo, there are alternatives that may encourage operators of self-catering units to make their properties available for sole or main residences. These include providing for a new NDR property rate which could be set above the basic property rate and applicable only to self-catering units. This class of property could be removed from the eligibility criteria to qualify for relief from Non-Domestic Rates. Alternatively, self-catering units could be reclassified as domestic dwellings, subject to Council Tax and a levy that is specific only to this class of property. This list is not exhaustive.
- 6.4 The current definition of a self-catering unit for the purposes of local taxation, requires the property to be advertised for at least 140 days in the calendar year and actually let for 70 days. An alternative for consideration is to align this definition with the definition of furnished holiday lets adopted by HMRC for the purposes of national taxation, which requires that the accommodation is advertised for 210 days and actually let for 105 days in the financial year.

Designation: Executive Chief Officer, Communities & Place

Date: 30 August 2023

Author: Sheila McKandie

Background Papers:

Appendices: Consultation Response

## Non-domestic rates/ Council Tax on second and empty homes: Consultation



### Respondent Information Form

**Please Note** this form **must** be completed and returned with your response.

To find out how we handle your personal data, please see our privacy policy:

<https://www.gov.scot/privacy/>

Are you responding as an individual or an organisation?

- Individual
- Organisation

Full name or organisation's name

The Highland Council

Phone number

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The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name
- Publish response only (without name)
- Do not publish response

#### Information for organisations:

The option 'Publish response only (without name)' is available for individual respondents only. If this option is selected, the organisation name will still be published.

If you choose the option 'Do not publish response', your organisation name may still be listed as having responded to the consultation in, for example, the analysis report.

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

- Yes
- No

## Questionnaire

### Question 1

Do you think the current definition of a second home should continue to apply?

#### More information:

For Council Tax purposes, the current definition of a second home is, 'a dwelling which is no one's sole or main residence and that is lived in for at least 25 days during the 12 month period of the Council Tax charge'.

#### Answer:

- Yes
- No
- Don't know Please give reasons for your answer

Council Tax is a property-based tax with a personal element and is designed on the basis that an individual can have only one sole or main residence. For Council Tax purposes, a second home is a property that an individual owns, or rents on a long-term basis, but doesn't occupy as their main residence. The current definition of a second home for Council Tax purposes is well-established and therefore fully tested, understood by those required to pay, and can be evidenced by Council Tax payers without incurring additional expense. From the perspectives of local authorities, the definition can be, and is applied in practice and is therefore workable, evidence can be verified, and administration is not over burdensome. Council Tax payers subject to second home charging have the same rights of appeal as those in sole or main residences.

The Scottish Government recognises that individuals have the right to own more than one property. When considering changes to local taxation (Council Tax & Non-Domestic Rates), to influence housing supply, legislators should seek to achieve a fair balance between the general interests of all Council Tax payers and the rights of those affected, i.e. those responsible for payment of local taxes relating to second homes, long-term empty properties and self-catering units.

The following key principles underpin the effectiveness of the legal frameworks used to administer, collect, and enforce local taxation:

- systems must be fair and progressive to strike the balance between ensuring everyone makes some contribution to the provision of local services while ensuring individual contributions reflect ability to pay
- public perception and a local taxation system that is reputable are important
- design should safeguard against payment avoidance and mitigate the risks of potential evasion
- ensure local taxes are collectable and enforceable by providing the appropriate legislative powers to enable local authorities to maximise collections
- provide fiscal flexibilities that support local decision-making and the provision of local services by ensuring that revenues are not ring-fenced
- legislation that is well understood by those required to pay, including being evidence-based.

As is the case across Scotland, Highland has areas of high housing pressure. Within the Highland Council area there are 123,100 domestic dwellings entered on the Council Tax List, of which 3% or 3,738 are recorded as second homes and therefore subject to a 100% charge per annum. The Highland Council has exercised its full discretionary powers to remove all discounts and charge 100% Council Tax for second homes; this being the maximum charge currently permissible within Council Tax legislation. Legislative powers to charge up to 100% are intended to reflect that second homeowners contribute to local economies through spend in local shops, restaurants, local tourism activities, and to maintain their properties, thereby helping to sustain employments across many sectors, including for example, tourism, retail and the trades.

While the Highland Council does not formally record the reasons why individuals have second homes, based on the feedback garnered through the day-to-day administration of Council Tax second home administration and collection, it is known that there are many diverse reasons for owning or renting a second home. Second homeowners include, but are not limited to, a mix of family homes and inherited family homes which are retained to enable immediate and extended family members to stay connected to their cultural heritage; those rented through private residential tenancies and purchased to undertake employments where individuals' main residences are not within commuting distance of their place of work; homes retained for returning family members who have completed university, skills-based training, travel, etc so that they can take up employments and settle in local communities; properties which are purchased for holiday purposes; and those who invest with the intention of retiring to the Highlands, some of which have local connections. Others inform the Council that they have invested in a second home, rather than paying into a private pension.

In some cases, inherited properties are owned by more than one family member, each visiting the family home at different times of the year, with the potential for each having varying views about staying connected to their heritage and retaining ownership or selling the home. Some second homeowners also report that although they have an asset, they also have very limited income to invest in the upkeep of their second home.

While the numbers are unknown and cannot therefore be quantified, there are examples of homeowners who are unable to sell their homes when relocating elsewhere as doing so would create negative equity. In these examples, owners have had to relocate for employment, caring or other purposes and are often paying rent in their relocated main home, with the property they own being classed as a second home. These owners report that they are reluctant to let their homes by entering private residential tenancies due to limited landlord protections. They also highlight they have no intentions of retaining their vacated home for any length of time. These taxpayers intend to sell their property when house prices stabilise at levels which avoid negative equity.

The housing conditions of many second homes means that investment is required to bring them up to a legal standard for living in as a main home. Improvements however cannot be undertaken, or undertaken at pace, as there is insufficient disposable income and repayable loans are unaffordable.

A lack of housing is impacting business' abilities to operate and to expand, across a range of sectors, as potential applicants cannot find suitable housing. Some businesses report that they are purchasing properties and static caravans to help mitigate this barrier. For some businesses, these financial burdens are only possible through mortgages.



## Question 2

Do you think the discount eligibility for job related dwellings and purpose built holiday accommodation is appropriate?

### More information:

Eligible job related dwellings and purpose built holiday accommodation are entitled to a Council Tax discount of 50%.

Purpose built holiday accommodation is defined as a dwelling that is used for holiday purposes and has a licence or planning permission limiting its use for human habitation throughout the whole year. An example might be chalets or other types of holiday accommodation that are either unsuitable to be occupied all year round (their construction may mean they are only suitable to be lived in during the warmer months) or are not allowed to be lived in all year due to planning, licensing or other restrictions.

Job-related dwellings are defined as homes owned by someone who has to live elsewhere for most or all of the time as part of their job, or the home the person occupies to undertake their job if the person has another home that is their main residence.

### Answer:

Yes

No     Don't know    Please give reasons for your answer.

In Highland there are a very small number of properties recorded as purpose-built holiday homes and therefore awarded a 50% discount. The current definition is clear, and these conditions mean that these properties cannot be used as a sole or main residence on a permanent basis throughout the year. As planning conditions or licences limit the use of purpose-built holiday homes, the evidence required can be provided by Council Tax payers and thereafter verified by local authorities for Council Tax purposes without creating substantial burdens for either party.

The definition of a Job-Related Dwelling is very complex, and the number awarded a 50% discount in Highland is very low. For example, Job-Related Dwellings include tied accommodation where the employer requires the employee to stay in a particular property; a warden of sheltered housing is a good example, whereas an individual who is unable to commute from their main home to their place of work, and who purchases or rents a property to enable them to undertake their employment while retaining their main home elsewhere, is deemed to have a second home and will be subject to their local Council's Council Tax second home charging policy for the area where they are residing to fulfil employment. In Highland, the Council Tax charge for second homes is 100%.

As the number of designated purpose-built holiday homes and Job-Related Dwellings are very low, any variation to the current definitions or rates of discounts will not provide any notable increase to housing supply, which is the policy intent of increasing charging for Council Tax second homes. Furthermore, there is a risk that any changes to these categories of dwellings could adversely impact the reputation and therefore the collectability of Council Tax.

### Question 3

Do you think councils should be able to charge a Council Tax premium on top of regular Council Tax rates for second homes?

Yes

This review of current legislation for second home charging should not be undertaken in isolation. It is vital that the cumulative impacts of all proposed changes and ongoing powers are understood and fully assessed. These include proposals to reform the Council Tax system to introduce mandatory measures; discretionary powers to apply annual inflationary increases to Council Tax; recent changes to the definition of Self-Catering Units to include 70 days or more actual letting; the proposals outlined in this consultation; and other broader measures that may be in the pipeline. The cumulative impacts of these changes and increases, may result in material increases to Council Tax charges, all of which needs to be given due consideration together rather than being treated as discrete areas or work and considered in isolation.

Providing Local Authorities with the ability to levy a premium on the current Council Tax charge for second homes would enable Local Authorities to generate additional revenue and therefore provide fiscal flexibilities. The Highland Council has fully exercised existing legislative powers to remove discounts for second homes, resulting in a 100% Council Tax charge.

To support local decision-making, it is crucial revenues generated from levying a premium are not ring-fenced thus ensuring that spending decisions can and are decided by Councils for local priorities.

Any premium could be applied only where an individual is responsible for payment of Council Tax on multiple second homes, without increasing the charge for those with one second home. Alternatively, there may be scope to have different premium rates, one lower premium rate for those with responsibility for one second home, with an increased premium rate for those with multiple second homes. Furthermore, premiums or higher premiums could be applied only where there is housing pressure.

The extent to which increased charges to Council Tax contribute to increases in housing supply that are suitable to meet individuals' housing needs, also need assessed.

To produce the evidence required to calculate local housing and land requirements over the next 20 years, Highland Council worked with housing market partners to produce a Housing Need and Demand Assessment (HNDA). The Highland HNDA was signed off as 'robust and credible' by the Centre for Housing Market Analysis (CHMA) in December 2021. The Scottish Government has developed an HNDA calculation tool to produce an estimate of the additional housing units needed locally. The HNDA tool works by projecting forward the number of new households who will require housing in Highland, based on household projections produced by the National Records of Scotland (NRS). The number of existing households who need to move to more suitable housing is also included. Economic scenarios are then applied to calculate housing affordability so that total housing estimates can be split into housing tenures. The baseline projections for Highland assume the number of households will grow under the NRS high migration scenario.

No     Don't know    Please give reasons for your answer.

Based on this assumption, future housing estimates for Highland suggest a requirement for 14,000 new homes over the next 20 years. About 30% of this requirement is for market housing options, with 47% of housing estimates focused on the delivery of social rented housing, with a further 21% on below market rent options such as shared ownership/equity and mid-market rent. During the life of the Local Housing Strategy 2023-28, a need for 5,000 new homes is estimated across Highland. Housing estimates suggest that more than half of the new homes estimated as needed across Highland are concentrated in Inverness (46%), followed by Mid Ross (10%) and Skye & Lochalsh (9%). The Housing Supply Target (HST) sets out the estimated level of additional housing that can be delivered on the ground and informs the definition of the Housing Land Requirement within the Local Development Plan (LDP). An annual Housing Supply Target (HST) for Highland has been set at 1,840 units per annum with a 40% target for affordable housing and a 60% target for market housing units.

The current power to implement increased charging for second homes in specific locations rather than on a Council-wide basis should be retained. This provides Councils with flexibilities to apply charges across the whole or in parts of its geographical boundaries based on a range of factors, including housing needs and avoids a potential unintended consequence for local taxation charges to create excess housing supply.

#### Question 4

If you have answered yes to question 3, what do you think the maximum premium councils could charge should be?

#### More information:

50% premium is the same as one and a half times the normal rate of Council Tax.

100% premium is double the normal rate of Council Tax

150% premium is two and a half times the normal rate of Council Tax

200% premium is three times the normal rate of Council Tax

250% premium is three and a half times the normal rate of Council Tax

300% premium is four times the normal rate of Council Tax

#### Answer:

- 50%
- 100%
- 150%
- 200%
- 250%
- 300%
- Other (specify) **Up to 100%**

Please give reasons for your answer.

A premium of **up to 100%** (i.e. **up to** double the rate of a sole or main residence) is considered a reasonable range rather than limiting local authorities to a flat percentage increase. This is particularly significant given the proposals to reform the Council Tax system, as these reforms may result in material increases in Council Tax charges and would be in addition to new powers to increase charges which may arise from this consultation. Providing a range that is scalable up to 100% provides more effective flexibilities for Local Authorities and more practical solutions to increasing the supply of sole or main residences only where there is housing need.

There are **3,738 dwellings** registered as second homes in Highland. This may suggest that the current policy of increasing Council Tax charging from 50% to 100% has not fully delivered the policy intent of bringing these dwelling houses into mainstream use. The policy of increased charging for second homes and long-term empty properties has however provided valuable and essential recurring revenue for Councils to support local decision-making, and provide local services, including housing developments.

When considering the level of premium to be applied, it is helpful to be reminded that an annual Housing Supply Target (HST) for Highland has been set at **1,840 units per annum for the period 2023-28**, with a 40% target for affordable housing and a 60% target for market housing units. When setting the level of premium that Councils could apply to second homes, there will be a broad range of factors which will need considered and weighted, and known and unintended consequences identified. In addition to the cumulative potential impacts from proposed Council Tax reform which will be additional to the proposed increases in this consultation, further considerations are set out in response to Question 5 below.

Any premium could be applied only where an individual is responsible for payment of Council Tax on multiple second homes and long-term empty properties, without increasing the charge for those with one second home or long-term empty property. Alternatively, there may be scope to have different premium rates, one lower premium rate for those with responsibility for one second home/long-term empty property, with an increased premium rate for those with multiple second homes/long-term empty properties. To provide full flexibility, it is important that Local Authorities retain discretion to apply different rates in different areas of their region to stimulate housing supply where there is pressure on the need for housing.

## Question 5

What factors should be taken into account by councils when deciding whether to introduce a premium on Council Tax for second homes?

### More information:

A non-exhaustive list of potential factors is set out below:

- numbers and percentages of second homes in the local area
- distribution of second homes and other housing throughout the council area and an assessment of their impact on residential accommodation values in particular areas
- potential impact on local economies and the tourism industry
- patterns of demand for, and availability of, affordable homes
- potential impact on local public services and the local community
- other existing measures or policies that are aimed at increasing housing supply and the availability of affordable housing

Councils may also decide not to use the powers or to disapply a premium for a specific period of time.

A non-exhaustive list of examples of where a council might consider doing this include:

- where there are reasons why the home could not be lived in as a permanent residence
- where there are reasons why a home could not be sold or let
- where the owner's use of their accommodation is restricted by circumstances not covered by an exception from the premium
- where charging a premium might cause hardship

Provide reasons for your answer:

Many parts of Highland are experiencing sustained pressure on housing supply. As the policy intent of increased local taxation on second homes is to increase the supply of sole or main residences to match housing need, then there are a broad range of considerations that need considered. These include:

The collectability of taxes when deciding whether to increase the amount being requested for payment and when forecasting revenue collected from increased charging.

Housing Supply Targets, as set out in the Local Housing Strategy, helpfully inform the projected supply targets for the next 5 years, which in Highland is set at 1,840 units per annum.

The cumulative impacts of potential Council Tax reforms, annual inflationary increases, and any new powers to levy premiums need fully understood and assessed together rather than in isolation from one another, to understand the financial impact on Council Tax payers, the impact on housing supply, and the potential additional revenue that may be collected by individual Local Authorities.

- Analysing the locations, distribution, and size of second homes and long-term empty properties would helpfully establish where the policy intent of increasing housing supply is necessary. This would avoid the risk of creating excess housing supply in some locations, which is not the policy intent, and identify

unmet need in other parts of Highland. For example, 21% of second homes are in parts of rural Highland where there is no pressure on housing supply whereas another part of Highland which makes up 46% of all housing pressure, has 11.5% of all second homes in Highland.

- Understanding residents' housing preferences would also help to identify whether second homes, long-term empty properties and self-catering accommodation provide viable and attractive options for those seeking homes now and into the future.
- Understanding that the policy intent of increasing housing supply may not create housing that is suitable to meet need, may avoid the risk of creating unnecessary supply which could create excess supply. Consequently, this could result in increases in vacant properties which over time would be reclassified as long-term empty properties. Excess supply risks properties falling into disrepair and suppressing local house values.
- The impact on the local economy is also a key factor that needs assessed to understand the direct and indirect contributions that second homes make, including from employments across a range of sectors, e.g. tourism, retail, and trades. Furthermore, further analysis is required to understand the extent to which second homes are contributing directly and indirectly to reversing depopulation and achieving repopulation in remote and rural communities and the extent to which local communities would be impacted by second homes policy changes.
- In some cases, second homes although maintained, have not been fully maintained to today's legal living standards and expectations. Investment will therefore be required to enable such dwellings to be returned to housing supply as sole or main residences.
- The re-introduction of non-repayable Home Improvement Grants or equivalent, may help achieve the policy intent of transferring these dwellings from second home status to sole or main residences. The current provision of repayable loans is not accessible to all second homeowners, e.g. those who have an asset and have limited incomes. The increased costs of building supplies, fixtures and fittings, and the shortage of skilled labour are exacerbating these challenges.
- Non-repayable grants would create opportunities for second homeowners to bring their properties up to the required housing standards for safe and comfortable living in the private rented sector, while retaining ownership for future personal use.
- In society rights should be balanced with responsibilities A review of the current protections available for landlords, which would enhance safeguards and incentives for landlords, may encourage individuals who are subject to second home charging to let their properties in the private rented sector. The outcomes of any such review would need to be carefully managed and designed in a way that continues to provide appropriate protections for tenants. Second homeowners report to the Council that the risks and conditions attached to private residential tenancies are too great and are a disincentive to let their properties.
- Historically, in rural communities, some landlords would let their property on a seasonal basis for the winter months, but open-ended tenancies, introduced in 2018, no longer permit landlords to end tenancies let for fixed periods. This is limiting the availability of local housing supply in areas where housing pressure have been identified.

- The current cost of living impacts and ongoing reductions in property values in some parts of Scotland, increased interest rates, and the risk of negative equity are culminating in an emerging issue that is preventing some from disposing of their properties. This impact may artificially and temporarily inflate the number of second homes registered in Scotland.
- All cross-cutting policy measures need assessed to understand their cumulative impacts, to deliver harmonised policies, and to align outcomes wherever possible. Such measures include for example, recent changes to the definition of a self-catering unit for the purposes of Non-Domestic Rates.
- Second homeowners inform the Council's Revenues teams that they have fixed incomes from which to pay Council Tax and increases in charging will reduce the amount available for discretionary spend, thus impacting the wider economy.
- There are no current controls within the conveyancing market to place a condition on the sale of second homes on the open market that restricts sales only to those who are purchasing former second homes for the purposes of providing sole or main residences.
- Bringing forward powers to give Councils first refusal to purchase former council houses when they come up for sale may help to achieve the policy intent of increasing housing supply for sole or main residences.
- Any premium could be applied only where an individual is responsible for payment of Council Tax on multiple second homes, without increasing the charge for those with one second home. Alternatively, there may be scope to have different premium rates, one lower premium rate for those with responsibility for one second home, with an increased premium rate for those with multiple second homes.

The above list is not intended to be exhaustive.

- Exemptions and delays to charging are essential to provide a practical and workable approach to second home charging policies. Those listed above in further information are reasonable but should not be considered an exhaustive list. For example, to enable properties to be improved quickly to the required standards, it would be helpful to provide new owners who purchase a property in need of repair or renovation with a 12-month exemption.
- Given the scale of increases to purchase costs for materials and supplies, and the difficulties sourcing trades people to undertake improvement works, and increasing interest rates, it would be reasonable to provide further exemptions where this can be evidenced.
- Local authorities would wish to retain the flexibility to exempt and delay second home charging in certain circumstances as determined by the Local Authority.



## Question 6

If you do, or were to, own a second home please tell us what you would do if the applicable rate of Council Tax were to increase, and the 'thresholds' to be classed as self-catering holiday accommodation for non-domestic rates purposes stayed the same?

### More information:

The current threshold for defining premises as self-catering holiday accommodation liable for non-domestic rates is it must be available to let for 140 days or more and actually let for 70 days or more in the same financial year.

A private residential tenancy is when a registered landlord lets accommodation to an individual/s and it will be their sole or main residence. All tenancies created on or after 1 December 2017 are open-ended, which means a landlord will no longer be able to ask a tenant to leave simply because the fixed term has ended.

### Answer:

- The home is (or would be) already used as self-catering accommodation and liable for non-domestic rates
- The home is (or would be) already used as a private residential tenancy and the tenant is liable for Council Tax
- I would continue to use it purely for personal use and pay the higher rate of Council Tax
- I would continue with split use between self-catering accommodation (below the non-domestic rates threshold) and personal use, and pay Council Tax
- My second home already has/would have split use between self-catering accommodation (below the non-domestic rates threshold) and personal use. Rather than pay the higher rate of Council Tax, I would increase the number of days the accommodation is available to let and actually let in order to meet the non-domestic rates thresholds
- My second home is purely for personal use. However, in order to stop paying Council Tax, I would make it available as self-catering accommodation for 140 days or more and actually let it for 70 days or more in order to be liable for non-domestic rates
- I use my second home purely for personal use but I would change its use to a private residential tenancy
- I use my second home as self-catering accommodation (below the non-domestic rates threshold) but I would change its use to a private residential tenancy
- I will seek reclassification as an empty home and pay Council Tax
- I will sell the second home

As set out elsewhere in this consultation response, those recorded as responsible for Council Tax second home charges are both owners and renters and their motivations and personal circumstances vary. For some, the property is a family home or an inherited family home that is being retained to stay connected to their heritage and for returning family members to settle and take up employments. Others have a second home to take up and sustain employments in locations which are out with commuting distances from their main home. Some report that they have invested in a second home as an alternative to paying into a private

pension whereas some have purchased a second home as a commercial venture, including to let the property as a private residential tenancy and to operate it as a self-catering unit.

For these reasons, a combination of the listed responses is anticipated.

**Question 7**

Do you think councils should be able to charge a higher premium than the current 100% (double the full rate) of Council Tax on homes empty for longer than 12 months?

**More information:**

Councils currently have the discretion to charge up to 100% premium on Council Tax on homes empty for longer than 12 months.

- Yes
- No
- Don't know

Please give reasons for your answer.

Answer:

Of the 123,300 domestic dwellings in Highland, 2.6% or 3,206 are registered as long-term empty properties.

As Council Tax is a statutory charge, owners of long-term empty properties typically prioritise payment of their local tax over discretionary spend, including home improvements. These owners consider that a 200% charge is already a significant charge when they are also paying 100% Council Tax on their main home. Any increases may disincentive property owners to undertake improvement works.

Owners of long-term empty properties report that the current level of charging, and therefore any increased charging, depletes their disposal and fixed incomes for home improvements and discretionary spend in the local economy. A further increase could therefore have an even greater adverse effect on fixed incomes, leading to an increased number of properties falling into disrepair and remaining dilapidated. The increased costs of building supplies and labour are exacerbating these challenges.

For some, long-term empty properties in Highland are inherited family homes which create situations where some individuals/joint owners have an asset with limited incomes.

A further premium to the existing 200% charge does not seem reasonable given the financial challenges that long-term empty property owners are experiencing, and the challenges being faced to bring their properties back into use.

A lack of housing is impacting business' abilities to operate and to expand as potential applicants cannot find suitable housing. Some businesses report that they are purchasing properties and static caravans to help mitigate this barrier. For some businesses, these financial burdens are only possible through mortgages.

The re-introduction of non-repayable Home Improvement Grants would help address the current barriers faced by long-term empty property owners. While loans are currently available, they are repayable and therefore inaccessible in these circumstances.

Implementing powers to ensure Councils are given first refusal to purchase a former Council house when it comes up for sale, may help to achieve the policy intent of increasing housing supply for sole or main residences. There is a risk however that the location and distribution of long-term empty properties do not align with housing need and the Housing Supply Targets.

**Question 8**

If you have answered yes to question 7, what do you think the maximum premium councils could charge should be?

More information:

This question is asking what the maximum premium should be for homes that have been empty for longer than 12 months.

The current maximum is 100% premium, which is double the normal rate of Council Tax.

Answer:

- 150%
- 200%
- 250%
- 300%
- Other (specify)

Please give reasons for your answer.

### Question 9

Do you think there should be a stepped approach to charging higher rates of Council Tax on long-term empty homes?

#### More information:

By 'stepped approach' we mean only giving councils powers to charge higher rates of Council Tax the longer the home is empty. For example, 100% premium at 12 months, 200% premium at 2 years, 300% premium at 5 years.

100% premium is the same as double the normal amount of Council Tax.

200% premium is the same as three times the normal amount of Council Tax

300% premium is the same as four times the normal amount of Council Tax.

#### Answer:

- Yes
- No
- Don't know

Please give reasons for your answer.

While there is some turnover in the numbers of long-term empty properties, trend data demonstrates that an increase in Council Tax charges over time is unlikely to incentivise most owners to return long-term empty homes back into use.

From the perspectives of local authorities, the administrative overhead of a stepped approach would require annual reviews and the exceptions are complex, requiring additional resources for administration. A stepped approach would also introduce a requirement for long-term empty property owners to complete and return review forms which could be onerous for some. This could give rise to appeals to the Local Taxation Chamber, result in reduced collection rates, require additional resources within the Council's Recovery team, additional budgets to enforce debts and risk the reputation of the Council Tax system.

As set out above in response to earlier questions within this consultation, there are a range of factors and levers which would need assessed and weighted, and known and unintended consequences understood. These include for example the cumulative impacts of annual inflationary increases, planned reforms to the Council Tax system and increases and charging which may arise from this consultation. There are also much broader measures that could be implemented and enacted to increase housing supply which do not involve local taxation. There are also other measures and levers that could be taken, which do not involve local taxation, to encourage owners of long-term empty properties to make their properties available as sole or main residences.

Any additional revenues from increased charging on long-term empty properties must not be ring fenced to ensure that Councils have the fiscal flexibilities for local decision-making and for the provision of local services.

### Question 10

Are there any exceptions that are not already taken into account, that should be, when charging a premium of Council Tax on homes empty for longer than 12 months?

- Planning application delays
- Affordability – high costs of materials and supply of trades
- Affordability for individual – eg inherited properties where the person is in active employments and wishing to return to the highlands, reversing depopulation

#### More information:

#### **Current discretionary powers for councils to change Council Tax liability for empty homes**

<b>Status of empty home</b>	<b>Up to 6 months</b>	<b>6-12 months</b>	<b>12 months +</b>	<b>2 years +</b>
No work underway and not for sale or let	Owner may apply for an unoccupied and unfurnished exemption	Discount can be varied between 50 and 10%	Discount can be varied between 50 and 10% or discount can be removed or premium of up to 100% can be applied	Discount can be varied between 50 and 10% or discount can be removed or premium of up to 100% can be applied
If undergoing repair work to make them habitable	50% discount cannot be changed	Owner may apply for a major repairs or structural alterations exemption.  Discount can be varied between 50 and 10%.	Discount can be varied between 50 and 10% or discount can be removed or premium of up to 100% can be applied.	Discount can be varied between 50 and 10% or discount can be removed or premium of up to 100% can be applied.
If being actively marketed for sale or let	50% discount cannot be changed	50% discount cannot be changed	50% discount cannot be changed	a premium of up to 100% can be charged

The current list of exemptions to Council Tax are:

<b>Exemption</b>	<b>Period of Exemption</b>
Dwellings last occupied by charitable bodies	Up to 6 months

Dwellings last occupied by persons living or detained elsewhere	Unlimited
	Unlimited up to grant of confirmation
Deceased owners	6 months after grant of confirmation
Dwellings empty under statute	Unlimited
Dwellings awaiting demolition	Unlimited
Dwellings for occupation by ministers	Unlimited
Dwellings occupied by students, etc.	Unlimited
Repossessed dwellings	Unlimited
Agricultural dwellings	Unlimited
Dwellings for old or disabled persons	Unlimited
Halls of residence	Unlimited
Barracks, etc.	Unlimited
Dwellings occupied by young people	Unlimited
Difficult to let dwellings	Unlimited
Garages and storage premises	Unlimited
Dwellings of persons made bankrupt	Unlimited
Visiting forces	Unlimited
Dwellings occupied by severely mentally impaired persons	Unlimited
Prisons	Unlimited
Prescribed housing support services accommodation	Unlimited

Answer:



Please tell us about exemptions that you feel should apply and give reasons for your answer. Do not include exemptions that are already provided for.

The current list of exemptions is effective and provides a good range of flexibilities when levying premiums.

There are further suggestions, which include those set out in Question 10. A further suggestion would be to reset the clock when a property changes hands as many tax payers purchase properties in good faith, unaware that previous use of the property can mean that they are not entitled to an exemption/delay from the premium charge. In these circumstances, monies set aside for home improvements and for maintenance, are depleted by unanticipated premium Council Tax charges. This often delays the start and pace of improvements and therefore has the opposite effect from the intended policy outcome of increasing housing supply for homeownership or private residential tenancies. Local Authorities would wish to retain discretion to establish exemptions and delays to the application of long-term empty premium charging. This provides the appropriate flexibilities to respond to local, national and global events that are impacting locally.

### **Question 11**

What factors should be taken into account by councils when deciding whether to introduce a premium on Council Tax for homes empty for longer than 12 months?

#### More information:

A non-exhaustive list of potential factors might be:

- numbers, percentages and distribution of long-term empty homes throughout a local area
- potential impact on local economies and the community
- patterns of demand for, and availability of, affordable homes
- potential impact on local public services
- impact on neighbours and local residents

Councils may also decide not to use the powers or to disapply a premium for a specific period of time. A non-exhaustive list of examples of where a council might do this include:

- where there are reasons why a home could not be sold or let
- where an offer has been accepted on a home but the sale has not yet been completed and the exception period has run out
- if the home has been empty for longer than 12 months but has been recently purchased by a new owner that is actively taking steps to bring the home back into use
- if an owner has submitted a timely planning application or is undergoing a planning appeal that is under consideration by the council or Scottish Government. This means they cannot undertake work to bring the home back into use until that process is concluded
- where charging a premium might cause hardship or act as a disincentive to bringing the home back into use e.g. where extensive repairs are actively being carried out

#### Answer:

Please list factors and give reasons for your answer.

The Council's response to Question 5 above is also applicable to Question 11. The non-exhaustive list provided in the "More Information" section within Question 11 is helpful and is supported by the Highland Council. Further, the Highland Council wishes to retain discretionary powers to decide further exemptions and delays which are to be applied within Highland. This local discretion is important to enable the Local Authority to respond to local, national and global events that are impacting locally.

## Question 12

If you do, or were to, own a home that has been empty for longer than 12 months, please tell us what you would do if your council decided to increase the maximum Council Tax charge above 100% premium?

### More information:

Council Tax premium:

- 100% premium is the same as double the normal rate of Council Tax. This is the current maximum councils can decide to charge. This question asks what you would do if councils are given powers to charge more than this e.g. up to 300% premium/ four times the normal rate and the council where your empty home is located decided to apply an increase.
- You may find it helpful to view what we mean by some of the options given e.g. short-term lets and private residential tenancies.

Short-term lets:

- In this consultation, short-term lets is a term used to refer to the whole or part of accommodation provided to one or more guests on a commercial basis that does not become the main residence of the guest/s. Self-catering accommodation is a type of short-term let and may be liable for Council Tax or non-domestic rates depending on the number of days they are available to let and actually let in the financial year.
- Self-catering accommodation must be available for let for 140 days or more and actually let for 70 days or more in the financial year, to be exempt from Council Tax and liable for non-domestic rates

Private residential tenancies:

- A [private residential tenancy](#) is when a registered landlord lets accommodation to an individual/s and it will be their sole or main residence. All tenancies created on or after 1 December 2017 are open-ended, which means a landlord will no longer be able to ask a tenant to leave simply because the fixed term has ended.

### Answer:

- Leave the home empty and pay the higher Council Tax
- Sell the empty home
- Use the home as a private residential tenancy
- Use the home as a short-Term Let
- Other (specify)

Based on feedback from tax payers in Highland, the anticipated response is a combination of the above.

Please give reasons for your answer.

There is some turnover in these properties within Highland which demonstrates that some owners are selling their properties and others are operating them as self-catering accommodation or private residential tenancies.

Some owners indicate that they will not be able to sustain any further increase to the current 200% premium but are concerned that that if they were to put their property for sale on the open market, they may be left with negative equity. Others purchase a long-term empty property with the intention of renovating it for resale so that they can move up the property ladder for their main home. When engaging with the Council, some owners, particularly those who own or have inherited a family home, are clear that their property is not being retained for commercial purposes and instead is being retained for use by family and extended family members to retain a connection with their Highland heritage and for returning family members to take up employments and settle in their local communities.

Those owners who express overriding desires to retain their properties, also report that they will need to curb discretionary spend, while also decelerating planned improvements and maintenance to their properties, to pay premium charges. Some have invested their incomes from employments in a second property rather than contributing to a private pension and are retaining their properties for their retirements.

Others inform the Council they have no intentions of using their home for commercial activities, such as self-catering units or private residential tenancies for a range of reasons. Some have no prior experience of commercial activities and do not have the confidence to venture into short-term letting or private residential tenancies, whereas others are disincentivised by the associated responsibilities, including the balance of rights and responsibilities for landlords and tenants.

### Question 13

Do you think that the letting thresholds for self-catering accommodation for non-domestic rates should be changed?

#### More information:

The owners, tenants or occupiers of self-catering accommodation (who may be businesses, the public or the third sectors) may be liable for either Council Tax or non-domestic rates. This includes owners of second homes who use them for self-catering accommodation.

The current threshold for defining premises as self-catering holiday accommodation liable for non-domestic rates is it must be available to let for 140 days or more and actually let for 70 days or more in the same financial year.

#### Answer:

- Yes  
 No  
 Don't know

Please give reasons for your answer.

In Highland, during 2022/23, 5,243 properties were registered in the Valuation Roll as self-catering units and therefore subject to Non-Domestic Rates (NDR) with a total liability of £6.9m. Furthermore, 4,708 units received £5.9m of relief from Non-Domestic Rates. The difference in total liability and relief awarded relates to properties eligible to 25% relief and those that are not eligible for any form of relief and therefore liable to pay the full rates charge.

Although 100% relief from NDR is available, operators of self-catering units are required to pay for commercial waste collections, and commercial water and waste water charges. They are also required to hold a short term lets licence which is also chargeable and, in some cases, may require Planning permission.

From 1 April 2022, the definition of a self-catering unit was extended to include that the property must be actually let for 70 days or more in the same financial year. However, as evidencing these 70 days is undertaken after the end of the financial year, and is therefore retrospective, the introduction of the actual let period has created an administrative overhead for Councils and the Assessors alike and introduced uncertainty for operators of self-catering units. Where an operator is unable to evidence actual let periods of 70 days or more in the financial year, the Assessor is required to remove the property from Non-Domestic Rates and transfer it to Council Tax. Local Authorities are then required to create retrospective liabilities for Council Tax in respect of the former and current financial year. In exceptional circumstances, to be determined by Local Authorities, some properties will continue to be subject to Non-Domestic Rates.

This legislative change has the potential to change the distribution of Councils' income sources. Given the number of self-catering units in Highland, the numbers of properties impacted could be relatively high when compared with other parts of Scotland.

This legislative change may also give rise to notable increases in appeals to the Local Taxation Chamber.

#### Question 14

If you have answered yes to question 13, what do you think the threshold for the number of days self-catering accommodation must actually be let for should be?

#### More information:

The current threshold is self-catering accommodation must actually be let for 70 days in the financial year.

#### Answer:

- 50 days
- 100 days
- 140 days
- 180 days
- Other (specify)

Align advertising and letting days for self-catering units with HMRC's rules for furnished holiday lets: 210 days advertised/105 days actual let in the financial year.

Please give reasons for your answer.

As self-catering units are operated on a commercial basis, one option may be to align the number of days actually let, with HMRC requirements for furnished holiday lets, i.e., 105 days in the financial year. Doing so may simplify the evidence process for operators when demonstrating their activities to both HMRC and Local Authorities. Fixing the actual number of letting days at 105 provides operators with flexibilities to make alternative uses of the property during parts of the year.

Operators who do not meet the requirements set for the actual number of days the property was let, would be subject to Council Tax second home charging (currently 100% in Highland), for as long as the conditions are satisfied. There is also a potential that in some instances, unused properties will be designated long-term empty properties and subject to these charges (currently 200% in Highland).

This approach would still enable properties to transfer between Council Tax and Non-Domestic Rates, determined by letting and advertising days.

This approach does not however remove the retrospective nature of evidencing these requirements and the associated implications of removing a property from NDR in one financial and backdating the Council Tax charge to the preceding financial year. Whilst subject to NDR the majority of self-catering units attract 100% relief from the Small Business Bonus Scheme and operators are required to pay for commercial waste collections, commercial water and waste water charges and short-term letting licences. Once in Council Tax, a second home liability charge will be created for the preceding and current financial for the provision of services, including domestic waste collection, and will include Scottish Water's water and waste water charges.

### Question 15

If you have answered yes to question 13, what do you think the threshold for the number of days self-catering accommodation must be available to let should be?

#### More information:

The current threshold is self-catering accommodation must available to let for 140 days in the financial year.

#### Answer:

- 120 days
- 160 days
- 200 days
- 250 days
- Other (specify) 210 days

Align advertising and letting days for self-catering units with HMRC: 210 days advertised/105 days actual let in the financial year.

Please give reasons for your answer.

The same principles as set out in response to Question 14 apply to the number of days available for let. One option may be to align with HMRC for furnished holiday lets, i.e., 210 days in the financial year. This number of days would still enable an operator to make personal use of the accommodation for part of the year between letting periods, should they wish to do so.

It will be important to retain the requirement to meet both advertising and letting conditions to be classed as a self-catering unit and be subject to Non-Domestic Rates.

Where an operator for example is able to demonstrate that the property was advertised for short-term let for 210 days or more in the financial year, but they are not able to evidence that the actual letting period was 105 days or more in the financial year, then it should be deemed that the conditions have not been satisfied and the property is subject to Council Tax. Satisfying these conditions may not be possible in some circumstances, including property purchases made midway or in the latter parts of a financial year. Where there are exceptional circumstances, Local Authorities can apply discretionary powers.





**Question 16**

Do you think councils should have discretion to change the self-catering accommodation 'days actually let' threshold, for their local area?

Answer:

- Yes
- No
- Don't know

Please give reasons for your answer.

Operators of self-catering accommodation often operate across local authority boundaries and any variations between the conditions being applied by different Local Authorities could cause confusion and create additional administrative overheads for operators. Having a different number of days to HMRC creates another dimension for operators to understand and have audit trails in place to evidence actual let periods.

For those eligible, the Small Business Bonus Scheme provides relief from Non-Domestic Rates and by retaining conditions that are set nationally and apply across Scotland maintains fairness in competition by ensuring that, providing all the conditions are met (nationally set, then irrespective of where you operate in Scotland, you will be subject to the same local taxation system. For those eligible to Non-Domestic Rates relief, there will be equity across Scotland for access to the Small Business Bonus Scheme.

Local Authorities wish to retain discretionary powers in exceptional circumstances, to be considered on a case by case basis, to determine the classification of self-catering units.

### Question 17

If you answered yes to question 16 do you think that councils should have discretion to:

Answer:

- Increase the number of days actually let only
- Decrease the number of days actually let only
- Increase or decrease the number of days actually let

Please specify if you think councils should have discretion to do something else

Local Authorities should not have a blanket discretion to increase or decrease the actual number of days let.
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Please give reasons for your answer

<p>Operators of self-catering accommodation often operate across local authority boundaries and any variations between the conditions being applied by different Local Authorities could cause confusion and create additional administrative overheads for operators.</p>
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<p>Retaining conditions that are set nationally and apply across Scotland maintains fairness in competition.</p>
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<p>Local Authorities wish to retain discretionary powers in exceptional circumstances to be considered on a case by case basis, to determine the classification of self-catering units. For example, an operator who purchased a property mid-way or in the latter months of the year, may not be able to achieve the minimum number of days set for advertising and actual letting. In these circumstances, providing they can evidence the same proportionate number of days as is required of those who own a property for 12 months of the year, then there should be scope to designate them as a self-catering unit.</p>
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**Question 18**

Do you have any other comments on the non-domestic rates system in respect of self-catering accommodation?

Answer:

Please provide your views

There are a range of options that may apply to self-catering units.

- One option may be to remove or reduce Non-Domestic Rates relief for the self-catering sector. Impacts would need assessed, including
  - the potential impact for individual operators and on tourism as a whole, and impacts on the associated employments that are created and sustained should operators remain/withdraw from the tourism sector;
  - whether removal of the Small Business Bonus scheme from this sector delivers fairness in competition across the commercial sector.
- A new rates poundage/property rate could be set for self-catering units which sets the charge at an amount higher than the basic rate. This could be implemented as an alternative or in addition to removing/reducing Small Business Bonus relief for this category of property.
- A premium poundage/property rate could apply only in areas of housing pressure. This would avoid the unintended consequence of creating excess supply of housing and the risks associated with doing so.
- Another option available is to remove all self-catering units from the Non-Domestic Rates system and enter them into Council Tax as a new category of dwelling and subject to premium charging. This approach would reflect that self-catering units are generally domestic dwellings which are being operated on a commercial basis.

### Question 19

If you do, or were to, own a second home please tell us what you would do in the event that the applicable rate of Council Tax and non-domestic rate thresholds both increased?

#### More information:

The current threshold for defining premises as self-catering holiday accommodation liable for [non-domestic rates](#) is it must be available to let for 140 days or more and actually let for 70 days or more in the same financial year.

A [private residential tenancy](#) is when a registered landlord lets accommodation to an individual/s and it will be their sole or main residence. All tenancies created on or after 1 December 2017 are open-ended, which means a landlord will no longer be able to ask a tenant to leave simply because the fixed term has ended.

#### Answer:

- The home is already used as a private residential tenancy
- I would continue to use it purely for personal use and pay the higher rate of Council Tax
- I would continue with split use between self-catering accommodation (below the thresholds to be liable for non-domestic rates) and personal use, and pay Council Tax
- My second home already has/would have split use between self-catering accommodation (below the non-domestic rates threshold) and personal use. Rather than pay the higher rate of Council Tax, I would increase the number of days the accommodation is available to let and actually let in order to meet the non-domestic rates thresholds
- My second home already has/would have split use between self-catering accommodation (above the non-domestic rates threshold) and personal use. Rather than revert to paying Council Tax, I would increase the number of days the accommodation is available to let and actually let in order to meet the higher non-domestic rates thresholds
- My second home is purely for personal use. However, in order to stop paying Council Tax, I would make it available as self-catering accommodation and let it for the number of days I needed to in order to be liable for non-domestic rates
- I use my second home purely for personal use but I would change its use to a private residential tenancy
- I use my second home as self-catering accommodation (below the non-domestic rates threshold) but I would change its use to a private residential tenancy
- I would seek reclassification as an empty home and pay Council Tax
- I would sell the second home
- Other (specify)

Based on feedback from council tax payers, it is anticipated that all of the above could apply depending on owners' personal circumstances.

Please give reasons for your answer.

Those registered to pay second home charges for Council Tax are a combination of owners and tenants. Some have purchased a second home, and in some instances multiple second homes, with the intention of using the property for short-term lets or private residential tenancies. In some cases, inherited homes are used to provide private residential tenancies and self-catering accommodation.

Others have second homes for personal use only, which includes family homes, to retain connection with their heritage, to be used for holiday purposes by immediate and extended family members, and for returning family members to take up employments and to settle in their communities.

Tenants who rent second homes and have main residences elsewhere will be liable for Council Tax increases for second homes. Tenants have indicated to the Council that combined increases in Council Tax and rent, or material increases in Council Tax, may mean they have to secure a different and more affordable tenancy or find employments within commuting distance of their main home.

A lack of housing is impacting business' abilities to operate and to expand as potential applicants cannot find suitable housing. Some businesses report that they are purchasing properties and static caravans to help mitigate this barrier. For some businesses, these financial burdens are only possible through mortgages.

For some, investment in a second home is intended for their retirements rather than making contributions to a private pension during their working years. These owners may decide to retain their properties and pay the increased Council Tax charges whereas others have indicated that this may not be a viable option for them.

Some tax payers have informed the Highland Council that the conditions attached to private residential tenancies do not make this option viable and others do not have the confidence or skills to enter into the self-catering sector.

A range of factors will therefore influence how those responsible for payment of charges relating to second home, long-term empty property and self-catering accommodation will respond to increases in charges and thresholds which may arise from this consultation.

## Question 20

If you do, or were to, own a second home please tell us what you would do in the event that:

- a) Council Tax powers remained as they are for second homes (i.e. no provision for councils to charge a premium), but
- b) the 'thresholds' to be classed as self-catering holiday accommodation for Non-domestic rates purposes increased?

### More information:

The current threshold for defining premises as self-catering holiday accommodation liable for [non-domestic rates](#) is it must be available to let for 140 days or more and actually let for 70 days or more in the same financial year.

A [private residential tenancy](#) is when a registered landlord lets accommodation to an individual/s and it will be their sole or main residence. All tenancies created on or after 1 December 2017 are open-ended, which means a landlord will no longer be able to ask a tenant to leave simply because the fixed term has ended.

### Answer:

- The home is already used as a private residential tenancy
- I would continue to use it purely for personal use and pay Council Tax
- I would continue with split use between self-catering accommodation (below the thresholds to be liable for non-domestic rates) and personal use, and pay Council Tax
- My second home already has/would have split use between self-catering accommodation (above the non-domestic rates threshold) and personal use. I would increase the number of days the accommodation is available to let and actually let in order to meet the higher non-domestic rates thresholds
- I use my second home as self-catering accommodation (above the current non-domestic rates threshold). If I was not able to meet the new thresholds, I would change its use to a private residential tenancy
- I would seek reclassification as an empty home and pay Council Tax
- I would sell the second home
- Other (specify)

Please give reasons for your answer:

Feedback from tax payers indicates that many will retain their properties, curb discretionary spend, and seek forms of financial and other supports that may be available to them, eg to improve or maintain their properties.

Some tax payers indicate they may withdraw from the tourism sector and sell their properties which would achieve the policy intent of making more properties available as sole or main residences and help to address housing need for individuals and families. This would also help to address the concerns raised by businesses which struggle to attract talent due to a lack of housing.

While there is some turnover in the ownership of second homes and long-term empty properties, there are 6,944 properties in Highland designated as such, which may indicate the extent to which local taxation achieves the policy intent of making more homes available as sole or main residences.

Changes to local taxation do however provide opportunities to generate additional and essential revenue and once collected, deliver a valuable source of recurring income for Local Authorities to support local decision-making and the provision of local services.

Various other measures, which do not involve local taxation, could also be implemented by the Scottish Government to increase the number of sole or main residences in places where there is identified need.

Operators of self-catering units, and second homeowners who use their properties for commercial or personal purposes, contribute to the tourism sector, which is vital to Highland's economy.

A report commissioned by the Tourism Leadership Group, dated April 2018, and published on the Scottish Government website, *Tourism in Scotland: The Economic Contribution of the Sector*, reports that the tourism industry accounts for around one in every twelve jobs in Scotland, and around five per cent of the Scottish Economy's Gross Value Added (GVA). The report also includes that tourism plays an important role in the economies of Scotland's major cities, while also making a substantial contribution to sustaining employment and economic activity in Scotland's rural communities. Increased charging and changes to Non-Domestic Rates self-catering units and those dwellings designated in Council Tax as second homes and long-term empty properties may augment the availability of short-term lets for holiday purposes and therefore impact the economic and employment contribution in Highland by the tourism sector.

The Highland Council has a particular focus on depopulation and aims to support measures to reverse the decline and ensure the sustainability of rural populations, and Highlands & Islands Enterprise is researching and evaluating repopulation and talent attraction. Owners of some second homes inform the Council that they are retaining a second home, which is usually a family home, for returning members of their families following for example, completion of university and skills-based training, travel and other activities, so that they can take up employments and settle in their local communities. However, the extent to which these second homeowners contribute to repopulation and talent attraction is unknown. It is also unknown whether the absence of second (family) homes would deter or delay individuals from returning to their communities to settle and take up employments thus helping to reverse depopulation and accelerate repopulation.



## Question 21

Please tell us how you think changes to Council Tax and/or non-domestic rates thresholds for self-catering accommodation might affect businesses in your area.

### Answer:

Please provide your views

A mixed response is anticipated from changes to Council Tax and/or Non-Domestic Rates thresholds for self-catering units arising from this consultation.

It is however difficult to anticipate taxpayers' responses should the proposed plans to reform the Council Tax system result in material increases to Council Tax charges. Any increases from Council Tax reform will be in addition to any charging increases that may arise from this consultation.

For these reasons, policy changes arising from this consultation should not be made in isolation from work that is underway to reform the Council Tax system. The cumulative impacts on Council Tax charging need considered and fully understood before legislative changes are made and increased charging and changes are implemented. This will ensure that decisions are fully informed, and their impacts can be fully assessed.

## Question 22

Please tell us how you think changes to the maximum Council Tax rate for second and/or empty homes and non-domestic rates thresholds might affect your local area or Scotland as a whole (social, economic, environment, community, cultural, enterprise).

### More information:

We have prepared a partial Business Regulatory Impact Assessment and undertaken screenings to initially consider other impacts. We would welcome your views and comments to help us expand on these assessments.

Please provide your views

Making more properties available as sole or main residences where there are housing pressures will support repopulation by enabling those who are attracted to an area, for employment, caring and other purposes, to find a home or at least make it easier to find a home. An adequate supply of appropriate housing will also encourage those who are already resident in an area to remain living within their communities and enable those seeking to move up the property ladder to do so. Increased housing supply will therefore help to reverse depopulation, which provides benefits for the local economies, for business and for those living and working in these communities.

Using local taxation to increase housing supply in areas of need may however result in housing supply that does not meet the needs of those seeking housing, e.g. in terms of size, disability and access needs, and specific locations. Local Housing Strategy targets are helpful in this regard as these forecasts take into account a range of factors.

While changes to local taxation may help to address housing demand in some areas, it could stimulate over-supply elsewhere. Over-supply has the advantage of providing greater choice and more affordable rental/purchase costs for those seeking housing. However, excess supply creates lower rental incomes, house values and selling prices for owners. This is exacerbated at the current time, by mortgage rate increases.

In Highland, employments from tourism are crucial and without suitable homes and attractive, permanent, and seasonal employments, the risk of depopulation becomes greater, and repopulation is an even greater challenge. The multiplier effect of local spend in the tourism sector also has wider economic benefits by creating and sustaining employments across a range of sectors, by increasing and broadening the training and skills available across the region, while also potentially attracting inward investment and enabling business growth across the supply chain. This demonstrates the need therefore to strike the balance between business growth and enterprise and creating opportunities, through a variety of means which is not limited to local taxation, to provide an adequate supply of suitable housing in geographical areas with housing need. For Highland, the Local Housing Strategy estimates suggest that more than half of new homes estimated as needed across Highland for 2023-28 are concentrated in Inverness (46%), followed by Mid Ross (10%) and Skye & Lochalsh (9%).

Answer:

Historically, in some parts of rural Highland, where there is significant pressure on housing supply, some properties were previously used for tourism during the warmer months and provided as sole or main residences during the winter. While this meant that some workers were living in temporary accommodation throughout the year, winter lets provided higher quality and affordable housing, enable workers to remain within communities to continue or take up employments and to stay connected with their communities. The introduction of open-ended private residential tenancies means that these properties are no longer available as sole or main residences during the winter months. This may be a matter for review as this would achieve the policy intent of this consultation to increase the supply of sole or main residences where there are housing pressures. It will however be vital to safeguard tenants to ensure they have security of tenure.

A lack of housing is impacting business' abilities to operate and to expand, across a range of sectors, as potential applicants cannot find suitable housing. Some businesses report that they are purchasing properties and static caravans to help mitigate this barrier. For some businesses, these financial burdens are only possible through mortgages.

### **Question 23**

Please tell us how you think the changes identified might affect island communities.

#### More information:

We have prepared a partial Island Communities Impact Assessment and undertaken screenings to initially consider other impacts. We would welcome your views and comments to help us expand on these assessments.

#### Answer:

Please provide your views

The response to question 22 above also applies to island communities although it is important to highlight that these issues are more acute for island living and working. Depopulation and repopulation are of particular importance for island communities. Consequently, the Council welcomes measures that encourage and enable individuals to remain and to settle within island communities, as this helps to support the sustainability and regeneration of remote and fragile communities.

A pre-cursor to the sustainability of the economic and social fabric of island communities is the availability of a broad range of local services, enterprise and an appropriate blend of local employments, including tourism employments. The availability of suitable housing is also crucial. As stated in earlier responses, striking the balance between the provision of an adequate supply of quality housing and attractive employments are essential. The co-dependencies between suitable housing and sustainable employments mean that one element cannot flourish and grow without the other.

## Question 24

Do you think there are any equality, human rights, or wellbeing impacts in relation to the changes set out in the consultation?

Answer:

- Yes
- No
- Don't know

Please give reasons for your answer.

Full impact assessments are required to answer this question in full.

The Scottish Government highlight as part of this consultation that everyone has a right to own more than property. As detailed in this consultation, the proposed changes to local taxation are intended to influence the scale and spread of these properties, and the way in which second homes, long-term empty properties and self-catering accommodation are used as alternatives as sole or main residences. The rights of owners therefore need fully impact assessed. It is equally important to ensure that everyone can live in a home that is secure and meets their needs.

Financial worries have significant impacts on individuals' health and wellbeing and those around them. The potential cumulative impacts of Council Tax increases arising from this consultation and proposals to reform the Council Tax system need impact assessed together as they may create such material increases in Council Tax and Non-Domestic Rates charges that the resulting financial pressures will impact individuals' wellbeing.

## Question 25

Is there anything else you would like to tell us in relation to this consultation?

### Answer:

Please provide any further comments on the proposals set out in this consultation in this box.

There are a broad range of reasons why people own and rent second homes, long-term empty properties and self-catering units. These include to retain a connection with their heritage, for returning family members to settle locally, to provide for their retirements instead of contributing to a private pension, for employment purposes, and for enterprise by those who use the property on a commercial basis. This list is not exhaustive.

For some, while they have an asset, they do not have regular or spare disposal incomes. There are several reasons why some tax payers cannot dispose of their second home, long-term empty property, or self-catering accommodation, or make it available for occupation as a main home. This includes the prevailing high costs of building materials, fittings and fixtures, and the shortage of skilled labour to undertake home improvements and maintenance. Tax payers report that they cannot afford to repay loans and this is not therefore a viable option to help them improve their second homes and long-term empty properties to a legal standard that is suitable for occupation as a main home.

There are mismatches between the distribution of second homes, long-term empty properties and self-catering accommodation, when compared with the places identified in housing need. Increased local taxation charging and changes may therefore create the potential for excess housing supply in some areas. This provides benefits for those seeking a main home and creates disadvantage for owners and potentially the local housing market where house values could fall and be suppressed. The Housing Strategy Targets are helpful in this regard.

There may be an argument to charge premiums, or higher premiums for those responsible for multiple second homes, long-term empty properties and self-catering units. There are several opportunities to change local taxation for self-catering units. This could include removing them from NDR and entering them as a new class of property within Council Tax, removing NDR relief and introducing a poundage/property rate which is above the basic rate.

An analysis of the number of recorded second homes and long-term empty properties provides an indication of the effectiveness of using local taxation to increase the number of properties available as sole or main residences.

The revenues generated from increases in local taxation provide crucial and recurring funding for Local Authorities, to support local decision making and for the provision of local services. It is vital that revenues collected through local taxation are not ring-fenced to provide Local Authorities with essential fiscal flexibilities.

Operators of self-catering units make a valuable contribution to the tourism sector and the resulting employments that are created across a range of sectors and the supply chain. Tourism also provides vital social, economic and regeneration benefits across the whole of Highland and Scotland-wide. Suitable housing is equally important. These co-dependencies mean that neither can flourish and grow without the other.

A lack of housing is impacting business' abilities to operate and to expand across a range of sectors, as potential applicants cannot find suitable housing. Some businesses report that they are purchasing properties and static caravans to help mitigate this barrier. For some businesses, these financial burdens are only possible through mortgages.

There are much broader measures, which do not involve local taxation, which could be taken to increase housing supply where it is needed, and these should be explored. This includes but is not limited to the reintroduction of non-repayable Home Improvement Grants for owners of second homes and long-term empty properties. In relation to private residential tenancies, striking a fair and reasonable balance between landlords' protections and safeguards for tenants may provide some with the confidence and motivation to enter the private rented sector by making their second home, long-term empty property, and self-catering units available for let.

Finally, it is paramount that this consultation is not considered in isolation from the proposals to reform the Council Tax system. If implemented, the scale of combined increases in Council Tax charging will be material and tax payers need to understand these impacts to inform their decision-making. This assessment should also include Local Authorities' abilities to collect any such increases, whether any such changes influence the reputation of the Council Tax system as whole, and provide an assessment of how these combined increases are forecast to impact eventual collection rates for both Council Tax and Non-Domestic Rates.

## **About you**

Please tell us which of the following categories best describe you (select all that apply):

- Owner of a Second Home
- Owner of a Long-term Empty Home
- Short-Term Let/Self-Catering accommodation operator
- Council or Assessor
- Organisation e.g. third sector or industry body

- Member of the Public
- Other, please specify

- Council or Assessor

Please tick whichever council areas apply to you (or select all of Scotland)?:

- Highland Council

The Highland Council