

RESPONSE TO SCOTTISH GOVERNMENT CONSULTATION: COUNCIL TAX FOR SECOND AND EMPTY HOMES AND NON-DOMESTIC RATES THRESHOLD

1. EXECUTIVE SUMMARY

- 1.1 On 17 April 2023 the Scottish Government published its consultation on Council Tax for second and empty homes, and non-domestic rates thresholds. The consultation closes on 11 July 2023 and a response has been drafted on behalf of the Council. This report seeks Council approval in respect of that response.
- 1.2 The issue of second homes and their impact on local communities has gained significant attention in Scotland in recent years. To address this concern, there has been a proposal to charge double council tax on second homes.
- 1.3 In response to the consultation we have considered the double charging of Council Tax on second homes and its potential effects on homeowners, communities, and the overall housing market as well as the impact on tourism.
- 1.4 Overall we believe it would be of benefit for the Council to be given the direction in law to charge up to a 100% increase in Council Tax on second homes in the expectation that it will help to alleviate a lot of the pressure on the local housing market and local communities whilst generating some additional income for the Council to use to support the delivery of services in these areas.

2. RECOMMENDATION

- 2.1 It is recommended that the Council approves the consultation response attached as appendix 1 to this report.

3. DETAIL

- 3.1 There are circa 3,000 second homes in Argyll and Bute, 6.2% of our overall Council Tax register, higher than any other local authority area in Scotland and much higher than the national average of 0.9%.
- 3.2 There are a number of advantages that increasing the Council Tax charge on second homes can bring around economic fairness, encouragement of long-term rental and the deterrence of speculation and property market distortion.
- 3.3 There are also some potential disadvantages around the impact on homeowners, tourism and the local economy and enforcement and administration challenges.

Advantages

3.4 Economic Fairness

Revenue Generation: Charging double council tax on second homes could provide a significant source of revenue for the Council, based on the current rate of Council Tax and an 85% collection rate on double charges, this could be as much as £4 million. This could be utilised to fund essential services, infrastructure development, and community projects.

Redistribution of Wealth: Increasing tax on second homes may help promote greater economic equity by reducing the concentration of wealth among property owners and potentially supporting affordable housing initiatives.

3.5 Encouragement of Long-Term Rental:

Increased Housing Availability: Higher taxes on second homes may discourage owners from keeping properties vacant or underutilised, leading to increased availability of rental housing for residents in need or increasing the number of properties for sale in the housing market.

Boosting Local Rental Markets: By encouraging owners to rent out their second homes, the policy could strengthen local rental markets, creating a more vibrant and sustainable community.

3.6 Deterrence of Speculation and Property Market Distortions:

Market Stability: The implementation of double council tax on second homes could discourage speculative investment in the housing market, thereby reducing volatility and the risk of housing bubbles dramatic price increases followed by dramatic reductions in prices.

Promoting Homeownership: Discouraging excessive investment in second homes may redirect resources towards primary residences, potentially increasing homeownership rates.

Disadvantages

3.7 Impact on Homeowners

Financial Burden: Owners of second homes would face increased tax liabilities, potentially leading to financial strain for individuals or families who rely on such properties for personal use or as future retirement assets. Capping such an increase at 100% in law would at least reduce the possible burdens.

Property Value Impact: Higher taxes on second homes may diminish property values in the longer term, negatively affecting homeowners' equity and potential returns on investment. However if we want younger local people to get a better chance to get onto the housing ladder locally then this can be an advantage.

3.8 **Tourism and Local Economy**

Tourism Sector: Second homes often contribute to the tourism industry by attracting visitors who spend money in local businesses. Increased taxes may discourage property owners from making their homes available for short-term rentals, impacting the tourism sector.

3.9 **Enforcement and Administrative Challenges**

Identifying Second Homes: Determining which properties qualify as second homes can be challenging, requiring accurate data collection and monitoring systems.

Compliance Issues: Ensuring compliance with the double council tax policy may require additional administrative resources, and enforcing the tax on non-compliant property owners could be cumbersome.

- 3.10 These details are largely outlined within the proposed consultation response attached in Appendix 1.

Other important considerations in the proposed reply to the consultation

- 3.11 In terms of economic fairness, the paper does consider the giving Council's similar powers here as in Wales where they can charge an increase in Council Tax of up to 300% on second homes. In our view that would not be fair and a 100% increase like we can do at present for long-term empty properties would strike the right balance for us. We want these owners to have a chance of renovating their properties before bringing them to the market. Charging 300% increase in tax would reduce their capacity to make any changes to improve their property.
- 3.12 Similarly in terms of the enforcement and administration challenges bringing the second home charges to a maximum 100% like the charges on long-term empty properties will ease the administrative burden somewhat on the Council Tax team. The team are due to conduct a second home review shortly and this will be even more important now given the details within the consultation document.
- 3.13 The consultation document talks about the thresholds for defining self-catering units in Non-Domestic Rates. This is important as this could be an avoidance tactic used by second homeowners if the Council increase its Council charges on second homes. Increasing the number of days that properties need to be advertised and actually let to be classed as non-domestic properties is reasonable and would help to minimise the chances for tax avoidance.
- 3.14 Any extra income generated as a result of this change in policy needs to be made available for Council's to use as they see fit and must not be ring-fenced to cover Scottish Government priorities. This is made clear in the response.

4. CONCLUSION

- 4.1 The opportunity to charge double council tax on second homes in our area presents a number of key benefits and challenges. While it may promote economic fairness, encourage long-term rentals, and deter property market distortions, it could also impact the tourism sector. Balancing these factors is crucial for us when considering the implementation of such a policy, with careful consideration of its potential short-term and long-term effects on individuals, communities, and the overall housing market. However we currently don't have this opportunity and we strongly support the Scottish Government's proposal to allow us the discretion to increase these charges should we want to in the future.

5. IMPLICATIONS

- 5.1 Policy – None at present, any legislative change made by the Scottish Government could allow us to bring a new policy to Council in the future over the double charge of Council Tax on second homes.
- 5.2 Financial – none at present. However if the Council get the powers to vary the tax and we implement these powers it could generate circa £4million in extra income annually.
- 5.3 Legal - None
- 5.4 HR – None at present, may need more processing/visiting staff if we implement any potential changes in the future.
- 5.5 Fairer Scotland Duty - None
- 5.5.1 Equalities – None
- 5.5.2 Socio-Economic Duty – None
- 5.5.3 Islands Duty – Possibly positive change for the Islands with more housing availability for locals.
- 5.6 Risk – None.
- 5.7 Customer Service - None
- 5.8 Climate Change Implications - None

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