



SCOTTISH EXECUTIVE

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Council Tax on Second and Long-Term Empty Homes

I attach a short consultation paper setting out our proposals and inviting your views.

If you have any questions about the consultation, please contact Ian Duncan, ☎ 0131-244 7025.

Views should be submitted by 20th February 2003. Your responses can be sent either by e-mail or by post. Postal comments should be returned to: Wilma Smart, FCSD:LGF&P2 Area 3-J, Victoria Quay, Edinburgh, EH6 6QQ. Electronic comments can be sent via e-mail to:
secondhomes-consult@scotland.gsi.gov.uk.

Yours faithfully

Ian D Duncan



Council Tax on Second and Long-Term Empty Homes: A consultation paper

Introduction

1. In its response to the Report of the Inquiry into Local Government Finance¹ by the Local Government Committee, the Scottish Executive agreed to consult on the recommendation that:

"in the interests of equity, the full Council Tax should be levied on second homes."

2. The consultation has been widened to include long-term empty properties as many of the economic arguments against council tax discounts for second homes can also be related to long-term empty properties.

3. Views are therefore requested on proposals for:

- the current 50% council tax discount for second homes to be removed or reduced
- the current 50% council tax discount for unfurnished long-term empty properties to be removed or reduced
- councils to be given discretion to alter the level of discount
- how council tax raised from reducing or removing discounts is distributed

4. The specific questions on which views are invited are summarised at the end of the paper.

5. Ministers are open to change in this area. They are keen to encourage full discussion of relevant issues and will give careful consideration to the responses received before taking any decision on whether to seek Parliament's approval to change the existing arrangements.

Sending us your views:

6. We invite responses by 20th February 2003. Please let us know if you wish your response to remain confidential. E-mail responses should be sent to: "secondhomes-consult@scotland.gsi.gov.uk" and paper responses to: Wilma Smart, Council Tax Consultation, Area 3-J (North), Victoria Quay, Edinburgh, EH6 6QQ.

7. Copies of the Consultation Paper can be obtained from the Scottish Executive website; by post from Wilma Smart, Area 3-J (North), Victoria Quay, Edinburgh, EH6 6QQ or by e-mail to secondhomes-consult@scotland.gsi.gov.uk.

¹ Local Government Committee of the Scottish Parliament, 6th Report 2002, Report of Inquiry into Local Government Finance, Vol.1, 2002

Discounts on second homes and long-term empty properties

- where we are now

8. When the council tax was conceived, it was intended that bills would relate to the valuation band of the dwelling, but would also take into account the *occupancy* of the dwelling. The full council tax bill is payable where there are two or more adult residents in a dwelling. Where there is only one adult resident a 25% discount applies. There are various classes of exemptions (see Annexe A).

9. Currently, for second homes that are no-one's sole or main residence, a 50% discount is applied².

10. For dwellings that are vacant (unoccupied and unfurnished) there is a six month exemption from council tax. For dwellings that are vacant (unoccupied and unfurnished) but which are undergoing major repair works, or structural alteration, there is an exemption from council tax for up to 12 months from the last occupation day. There are no plans to change these exemptions. For dwellings that are unoccupied for periods greater than this, currently a 50 per cent discount is applied (unless they are exempt for one of the reasons in Annexe A).

11. Generally council tax discounts also apply to water and sewerage charges. Therefore any adjustment to the council tax discounts is also likely to apply to water and sewerage charges.

– why change?

12. Giving tax discounts on second properties is often perceived as unfair – the argument is that their owners are generally able to afford full council tax and should do so. Conversely, it can be argued that the same level of demands are not being made on local authority services by these properties and making owners pay full council tax is unfair.

13. Second homes can have a significant impact on the nature and sustainability of local communities. Second home owners can contribute strongly to certain sectors of rural communities – buying goods and services where demand may otherwise be weak. However, high demand for second homes may affect property prices in some areas, potentially making property less affordable for local residents. Properties that are not occupied for much of the time can lead to a reduction in the demand for local services such as the local bus service, the village shop and pub.

14. Homes that have been empty for long periods can deny homes to those in housing need and can be a drain on local resources (e.g. environmental health, policing). Empty homes can also increase pressure for the building of new homes.

² Furnished properties that are no-one's sole or main residence but which are available for let for more than 140 days per year are liable for non-domestic rates rather than council tax.

– options for change

15. Views are invited on whether council tax discounts should be reduced or removed for:

- **Second homes** – defined as *furnished* homes that are no-one's main residence
- **Long-term empty homes** – defined as *unfurnished* homes that are no-one's sole or main residence and are not exempt from council tax under any of the categories listed in Annexe A.

The change to the discounts could be made mandatory. However, views are requested on whether local authority should be given **discretion** to remove/reduce the discounts in line with locally agreed policy. Allowing discretion obviously adds complication to the system, but some things to consider are:

- Authorities may want to encourage second home owners into an area where there is a low demand for houses.
- People living in tied accommodation e.g. pub-landlords, farm workers, clergy may have a second property for their retirement etc.
- People can find themselves the owner of a second home or an empty property in circumstances beyond their control. For example, they may inherit a property that might be difficult to sell. And council tax benefit is not available for second properties.

Income from second homes and long-term empty properties

– where we are now

16. The current needs-based grant distribution arrangements for Scottish Executive support to local authorities takes account of the relative ability of each local authority to raise income from the council tax. Those local authorities that have a large number of these types of properties in their area receive compensating central grant support. Therefore, currently the impact of second/long-term empty homes on the council tax base is spread across all local authorities and individual areas are not penalised.

17. As can be seen in **Annexe B** there are in excess of 60,000 properties entitled to a 50% discount in their council tax. This represents about 3 per cent of all properties in Scotland. Within the 60,000 properties there will be a number that are receiving a 50% discount for reasons other than the fact they are someone's second/long-term empty property but, potentially, an income in the order of £25 million could be raised annually from second and long-term empty homes. Income raised from council tax (including council tax benefit) in 2001/02 was £1,700 million.

– the options

18. Two options for using the council tax raised from ending or reducing discounts are given below:

- A. Income shared by local authorities across Scotland.
- B. Local authorities ending/reducing the discount retain the proceeds and are free to spend them on local priorities.

Option A: Income share by all local authorities

19. Option A would mean that the additional revenue raised would be available for distribution *across Scotland*. There would be no corresponding cut in grant at national level.

20. The increase in the tax base could, if authorities wished, be used to reduce council tax bills or to raise additional money to spend on local priorities.

21. This would be the most straightforward option. Under this option there would be no incentive for local authorities to end the discount purely on financial grounds. It would require no change to the existing local government finance arrangements and authorities that end the discounts would not be required to ensure dwellings remain unoccupied (this would be necessary under option B).

Option B: Local retention

22. Under this option, the additional revenue raised would be retained locally and would be disregarded for the purposes of grant distribution purposes for authorities that reduced or removed the discounts. This would allow the local area to benefit from the increased tax contribution of second and long-term empty home owners. This could be used for local priorities, and assumes that areas with a large number of second properties require additional spending needs compared to those without.

23. If individual local authorities are to retain the income, the number and band of the dwellings with the discount removed or reduced would have to be known. This is for grant distribution purposes - the council tax base³ would have to be adjusted to remove or reduce the contribution of these dwellings to the council tax base. Administratively, this could be difficult as with no discount on offer owners would have no incentive to register their dwellings as a second property. One possible solution would be to offer a smaller discount, for example 10 per cent.

24. For some authorities the potential additional revenue raised from reducing or removing the discount could be quite substantial. This may give local authorities an

³ The council tax base is the number of dwellings expressed as 'Band-D equivalents'. For example, currently a band D property with a 50% discount contributes 0.5 to the council tax base; a band D property with a 25% discount contributes 0.75.

incentive to end the discount irrespective of whether or not second or long-term empty homes are a problem. Authorities will have a financial incentive to reduce/remove discounts even in areas where it may add to local housing problems.

Legislation

– where we are now

25. Legislation currently sets out the circumstances in which council tax exemptions and discounts apply. Local authorities do not have discretion to grant exemptions or discounts in any other circumstances. Nor do they have a general power to remit or waive council tax on hardship grounds because council tax benefit is available for people on low incomes.

The requirement on all local authorities to apply a 50% discount on second/long-term empty homes is contained in primary legislation⁴.

– options for change

26. Primary legislation would be required to change council tax discounts. It would not be necessary for the same reduction to apply to both types of properties.

27. If it is viewed that there should be no local authority discretion, we would legislate to reduce or remove the council tax discount for second homes and/or long-term empty properties for all local authorities and all eligible properties.

28. If discretion is preferred, we could legislate to allow local authorities to be given the power to set the council tax on these type of properties at one of, for example, 50%, 75%, 90% or 100% of the liable rate. It would be for each local authority to consider whether to remove/reduce the discount on either or both of second homes and long-term empty properties after considering the circumstances relevant to their area.

29. In both the above scenarios, mandatory exceptions to the reduction or removal of discounts on second or long-term empty homes could be made – for example for those in tied accommodation. The alternative is that these could be left for the local authority to manage on a case by case basis (see below).

30. It is recognised that removing the 50 per cent discount on second/long-term empty homes could cause hardship for a number of individuals. Authorities could be given a power to grant relief on a case by case basis. The local authority would be required to meet the cost of any discretionary discount or exemption beyond that required by statute or secondary legislation. This discretionary council tax “hardship” relief may or may not extend to water and sewerage charges.

⁴ Section 79(2) of the Local Government Finance Act 1992

Summary of questions on which views are invited:

Extent of local authority discretion over council tax

Second Homes

Q1. Should the current 50% council tax discount be reduced or removed for **all** second homes?

Q2. Should local authorities be given **discretion** to reduce or remove the council tax discount for second homes within their local areas?

Q3. If yes to either question 1 or 2, what should the level of discount be (if anything)?

Long-term empty properties

Q4. Should the current 50% council tax discount be reduced or removed for **all** long-term empty homes?

Q5. Should local authorities be given **discretion** to reduce or remove the council tax discount for long-term empty homes within their local areas?

Q6. If yes to either question 4 or 5, what should the level of discount be (if anything)?

Second Homes/Long-term empty properties

Q7. Should there be any **mandatory** exceptions to the reduction or removal of discounts on second or long-term empty homes? If so, what?

Q8. Council tax benefit is not available for second homes. Should local authorities have powers to grant relief on a **case by case** basis (for example in cases of hardship)?

Proceeds from reducing or removing council tax discounts

Currently the impact of second/long-term empty homes on the council tax base is spread across all local authorities. Those local authorities that have a large number of these types of properties in their area receive central grant support to compensate for the reduced council tax base.

Q9. Should income raised from reducing or removing council tax discounts be spread across all local authorities in Scotland?

Q10. Should income raised from reducing or removing council tax discounts be retained locally? Why do you think this? If the proceeds are to be retained locally the dwellings need to be excluded from the council tax base for grant distribution purposes. How can these dwellings be correctly identified? This is particularly important if you believe that there should be no discount.

DWELLINGS EXEMPT FROM COUNCIL TAX BY STATUTE

- | | |
|---|-------------|
| 1. Unoccupied and unfurnished new dwellings | max 6 mths |
| 2. Unoccupied dwellings being structurally repaired, improved or reconstructed | max 12 mths |
| 3. Unoccupied dwelling last occupied by charitable body | max 6 mths |
| 4. Unoccupied and unfurnished dwellings | max 6 mths |
| 5. Unoccupied dwelling last occupied by person(s) living or detained elsewhere | |
| 6. Unoccupied dwelling which any liability would fall to be met solely out of the estate of a deceased person | max 6 mths |
| 7. Dwellings empty under statute | |
| 8. Dwellings owned by a local authority, Scottish Homes or a Registered Social Landlord and awaiting demolition | |
| 9. Unoccupied dwellings held for occupation by a Minister of religion | |
| 10. Dwellings occupied solely by full-time students | |
| 11. Unoccupied repossessed dwellings | |
| 12. Unoccupied and unfurnished agricultural dwellings | |
| 13. Unoccupied dwellings held for occupation by old or disabled persons | |
| 14. Halls of residence for students | |
| 15. Armed forces accommodation owned by the Secretary of State for Defence | |
| 16. Dwellings occupied solely by persons under the age of 18 | |
| 17. Difficult to let dwellings | |
| 18. Certain garages and storage premises | |
| 19. Dwellings of persons made bankrupt | |
| 20. Dwellings occupied by members of visiting forces | |
| 21. Dwellings occupied solely by persons with a severe mental impairment | |
| 22. Prisons | |

Note: for properties to be exempt they have to satisfy certain prescribed conditions

Note: there is no time limit on the exemptions unless otherwise indicated

Annexe B

DWELLINGS ON THE VALUATION LIST FOR EACH COUNCIL ENTITLED TO 50% DISCOUNT ON COUNCIL TAX¹

Aberdeen City	3,300
Aberdeenshire	3,383
Angus	1,794
Argyll and Bute	4,602
Clackmannanshire	285
Dumfries and Galloway	2,429
Dundee City	2,176
East Ayrshire	778
East Dunbartonshire	231
East Lothian	774
East Renfrewshire	353
Edinburgh, City of	5,830
Eilean Siar	1,255
Falkirk	795
Fife	4,397
Glasgow City	2,665
Highland	6,685
Inverclyde	1,061
Midlothian	188
Moray	1,619
North Ayrshire	1,980
North Lanarkshire	1,106
Orkney Islands	706
Perth and Kinross	3,080
Renfrewshire	2,484
Scottish Borders	2,084
Shetland Islands	638
South Ayrshire	928
South Lanarkshire	838
Stirling	860
West Dunbartonshire	595
West Lothian	420
Scotland	60,319

Data supplied by Authorities as at 3rd September 2001

1. Not all dwellings entitled to 50% discount on council tax are second homes or empty properties.