



**South Hams**  
District Council

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Our ref: Consultation response  
15 January 2019

Dear Sirs

### **Consultation on the Business Rates treatment of self-catering accommodation**

South Hams District Council is located on the south coast of Devon. The area contains the towns of Totnes, Dartmouth, Kingsbridge, Salcombe and Ivybridge and also has some of the most unspoilt coastline on the south coast.

As such, South Hams has a high proportion of holiday homes and recent statistics<sup>1</sup> show the area has the third highest proportion of second homes in the UK. One in every twelve homes in the District is a second home. The South Hams figures are more than seven times higher than the national average and therefore the issue in South Hams is one of the most acute in the country.

The Council considered the issue of business rates relief on the letting of self-catering holiday homes at its Council meeting of 6<sup>th</sup> December 2018. South Hams District Council is firmly of the view that domestic properties should pay council tax on their properties, irrespective of whether they are let out or not.

It cannot be right or fair in any way, that second home owners can let out their properties for hundreds of pounds every week (or even higher) and yet, under the current system, they are paying no taxation whatsoever into the local economy as they are eligible for business rates and small business rates relief. These holiday lets are using the local services and infrastructure (e.g. the roads) and yet they are not paying any taxation at all towards the upkeep and running costs of these services. They are not financially contributing to the local community for the services that they are using and this is to the detriment of local residents who are picking up these costs.

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<sup>1</sup> Council Tax Base (CTB1) form October 2018 issued by the Ministry of Housing, Communities and Local Government



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The Council strongly believes that they should be paying council tax, which would be a fair and equitable form of taxation, for these domestic properties. The Council supports the District Council Network view that there is scope to implement an alternative where self-catering accommodation is taxed solely through the council tax system, with legislation changed as necessary to deliver this.

At its Council meeting on 6<sup>th</sup> December 2018, the following motion was approved by South Hams District Council:-

Notice of Motion 47/18(a) & (b)

**It was RESOLVED:**

**That this Authority urges the Government to consider the removal of 100% Business Rate Relief on the letting of self-catering holiday homes. The Government's present approach has a serious financial impact on local authorities with a high volume of Holiday Home Lettings. This Authority should continue lobbying to have the Relief removed.**

**Furthermore, this Council welcomes the consultation being undertaken by the Ministry of Housing, Communities and Local Government in respect of the review of tax rules for second-homes and resolves to respond by the closing date on 16 January 2019. In making its response, the Council will include the following:**

**At a time when local authorities in Devon are struggling to maintain public services and balance their budgets, a vast sum of money is lost each year due to a tax loophole available to owners of second homes and/or holiday lets in the county.**

**If the owners of second homes declare that they make their property available for holiday accommodation for at least 140 days out of the year, they don't have to pay Council Tax and can be registered for Business Rates instead.**

**In the event of the rateable value on the property being less than £12,000, the owners are exempt from paying both Business Rates and Council Tax.**

**Records show that there are 1,358 business rated properties in the South Hams that fall into the category of holiday lets or second-homes. If the owners of each property paid their full share of Council Tax, a total of £2.47 million would flow into South Hams District Council, Devon County Council and the Emergency Services, such as Fire and Police. South Hams District Council's share of the total would be around £223,000.**

**In order to close this tax loophole and, in recognition of the local government services provided for the benefit of the occupants of holiday lets or second homes, this Council calls upon the government to introduce legislation requiring such properties to pay 100% Council Tax.**

This Authority would like to make it absolutely clear that South Hams District Council is not supportive of the proposals set out in the consultation as they do not go far enough to rectify the fundamentally unfair system of taxation that allows for a property to avoid paying Council Tax and receive full rates relief from their Business Rates bill. Small business rates relief was implemented to support small businesses and village halls (etc.), not to allow home-owners of million pound properties to not pay any taxation.

***Instead we would urge the Government to ensure owners of second homes and properties that are available for self-catering holiday lets, contribute appropriately to the local economy and are subject to Council Tax rather than National Non-Domestic Rates.***

***This is also the view of the District Council Network, which the Council fully supports and agrees with.***

These properties, whilst not paying any form of local taxation, still utilise all of the services provided locally. All of this is paid for by the local residents, with the hardest hit being the smaller Town/Parish Council residents who end up paying additional Council Tax due to the disproportionate number of these properties in their area.

All precepting Authorities, including the Fire and Police Authorities also suffer due to a reduction in their annual Council Tax income, and the County and District suffer further in lost New Homes Bonus, as no allowance is given where a property moves from being a second home to a business rated property.

Attached to this letter, the Council has prepared some background information on South Hams (Appendix 1) showing the effect of the current scheme, which the Government is only proposing to strengthen the current criteria.

There is also an Appendix 2, which is the Council's response to the questions in the consultation, but these are completed with the reiteration that the Government consultation does not go far enough to rectify the problem and it is the Council's view that these properties should be subject to council tax.

The Council would also like to make the point that on introducing this legislation to ensure these properties are paying council tax, it should not be the case that the Council is adversely impacted through the lowering of its business rates baseline from these properties moving back to the Council Tax listing (and a consequential reduction in the Business Rates Listing).

This reduction should be compensated for by the Government and a corresponding 'adjustment' made to the Business Rates Baseline, to ensure Councils do not lose out financially from this change in legislation.

**In summary, South Hams District Council is of the opinion that owners of self-catering accommodation should be subject to local taxation through the council tax system, so that they are paying taxation for the services they are using. We call on the Government to introduce legislation to this effect so that second home owners are making a fair contribution (through paying council tax) to the cost of running local services, to ensure local residents are not being detrimentally affected by picking up all these costs.**

Should, after the consultation, these properties still be allowed to move from Council Tax to Business Rates (albeit with the minor change to the rules), or where a residential property is newly built and then used as a holiday let, it is important that it is still counted towards the allocation of New Homes Bonus (NHB), regardless of whether it is taxed through Council Tax or Business Rates.

Otherwise there is a risk that these properties, in addition to not paying local taxation, would also have a negative effect on the New Homes Bonus and this is a clear disincentive effect to allowing new homes to be built. It would be helpful if this could be confirmed when the Government responds to this consultation.

Yours faithfully

**Cllr John Tucker**  
**Leader of South Hams District Council**

CC: Dr Sarah Wollaston MP  
Sir Gary Streeter MP  
All South Hams District Council Members

## **Appendix 1 – Background information about South Hams District Council**

South Hams District Council is located in the South West of England, in a beautiful rural area between the sea and the moor. As such it has a high proportion of holiday homes and homes that move from being Council Tax rated to Business Rates rated.

The area includes the well known tourist towns of Dartmouth and Salcombe and other wards and parishes, where the number of Council Tax second homes is as high as 40% of the tax-base in some areas.

Below are some relevant facts with respect to the area and this topic:

The Council Tax Base (CTB1) form submitted to the Government by the Council, showed that at October 2018, the Council had 3,835 second homes out of 44,338 properties in the District. This equates to just under 9% and means that one in every twelve homes in the District is a second home. The South Hams figures are more than seven times higher than the national average and therefore the issue in South Hams is one of the most acute in the country.

In December 2017 the Council had 1,410 properties assessed as 'Apartment House' on the Business Rates system. In November 2018, this number had increased to 1,455. In the same period, the number of second homes registered for Council Tax reduced from 3,835 to 3,751. Of these properties, Business Rates of approximately £3.37 million is charged and £2.35 million in small Business Rates Relief is awarded.

Should these properties be domestically banded (instead of being business rated), an estimated £2.47 million more in Council Tax would be raised for the District (whose share would be around £223,000), Devon County and the Emergency Services.

With eight Local Authorities in Devon, such a change could well allow in excess of £10million to be collected in council tax, at a time when Adult Social Care and other essential services (e.g. Special Education Needs) are struggling for funding.

### **Salcombe Town Council**

In December 2017 the town of Salcombe had 185 properties assessed as 'Apartment House' which had risen to 202 in November 2018. In the same period, the number of second homes registered for Council Tax reduced from 681 to 637.

In this year's Taxbase calculation, the taxbase has decreased from 1,974 to 1,930 (a 2.2% reduction), meaning that their Band D council tax on a precept of £81,153 would increase by 92 pence from £41.11 to £42.03 because there are fewer residential properties on the council tax rating list (due to properties moving across to business rates).

The 2018 Council Tax base for Salcombe has therefore reduced and **resulted in a Council Tax increase for all remaining Council Tax payers of over 2% (due to properties moving across to business rates)**, just to keep the Town Council spending the same and maintaining their precept at the same level as the previous year.

## **East Portlemouth Parish Council**

East Portlemouth is a small parish with 153 dwellings. Sixty of those properties are recorded on Council Tax records as second homes. Twenty five properties are currently assessed for Business Rates.

Even a small number of second home owners taking advantage of the current system, or the proposed changes will make a massive difference on the tax base and local residents.

## **Appendix 2 – The Council’s responses to the question set out in the Consultation Paper**

**The Council has responded to each of the consultation questions below, but wishes to make it clear in each case that these properties should be banded for Council Tax. The consultation ‘tinkers’ around the edges of the problem, rather than fundamentally changing the system to fix it and make it fair.**

### **Q1 – Do you have any views on the current criteria?**

South Hams District Council is firmly of the view that domestic properties should pay council tax on their properties, irrespective of whether they are let out or not.

It cannot be right or fair in any way, that second home owners can let out their properties for hundreds of pounds every week (or even higher) and yet, under the current system, they are paying no taxation whatsoever into the local economy as they are eligible for business rates and small business rates relief. The Council fundamentally disagrees with holiday lets being able to be business rated and able to claim rate relief and therefore pay no taxation.

The Council supports the District Council Network view that an alternative should be implemented, where self-catering accommodation is taxed solely through the council tax system, with legislation changed as necessary to deliver this.

Any property incorrectly in the Non Domestic Rates listing reduces the Council Tax Base and therefore impacts on the amount other Council Tax payers have to pay and also on the finances and income available to all tiers of Local Government including Parishes. As the Small Business Rates Relief scheme is paid for by the supplement, there is also an argument that businesses are also paying more than they should, to enable these properties to be ‘tax free’.

### **Q2 – Do you have any views on the possible criteria set out?**

South Hams District Council is firmly of the view that domestic properties should pay council tax on their properties, irrespective of whether they are let out or not.

It cannot be right or fair in any way, that second home owners can let out their properties for hundreds of pounds every week (or even higher) and yet, under the current system, they are paying no taxation whatsoever into the local economy as they are eligible for business rates and small business rates relief. The Council fundamentally disagrees with holiday lets being able to be business rated and able to claim rate relief and therefore pay no taxation.

The Council supports the District Council Network view that an alternative should be implemented, where self-catering accommodation is taxed solely through the council tax system, with legislation changed as necessary to deliver this.

This accommodation could otherwise be used as housing to address the housing crisis, but in many cases it is exempt from taxation under business rates because of small business rate relief. Owners of self-catering accommodation should be subject to local taxation as the use of properties imposes costs on local communities, and councils should be guaranteed an income from them which is achievable at present only through the council tax regime.

Second homes that are let out should be contributing financially to the community for the services that they are using and should be paying a fair proportion of taxation in this respect. Otherwise many second home-owners that let out their properties are paying no tax at all and this is to the detriment of local residents who are picking up these costs.

**We would strongly urge Central Government to take this alternative approach forward and to legislate so that these properties pay a fair taxation through the Council Tax system.**

Should the Government not be open to change its approach, the suggested criteria are a definite improvement for actually having to have the property let out for at least 10 weeks of the 20 weeks it is available for. Being reviewed every year and having to be continuously let is also a positive.

### **Q3 – Do you have any views on how the criteria set out could be evidenced?**

South Hams District Council is firmly of the view that domestic properties should pay council tax on their properties, irrespective of whether they are let out or not.

Property banded for Council Tax would not need additional evidence or annual review as the property would pay the appropriate Council Tax for its band, subject to any discounts or reductions that the Council Tax system would allow. This would save the Valuation Office Agency both time and resource once the original accurate banding was carried out.

Should the Government not be open to change its approach, to prevent fraud in this new criteria (false receipts etc.) and in other taxation areas, linking the evidence to submissions to HMRC tax returns (asking how many weeks it was let for) would ensure all tax is paid and provide straight forward proof to the Valuation Office Agency that the property should be Business Rated.

This would also ensure income from this type of rental is declared, to receive the benefit of Small Business Rates Relief.

The Council suggests that the existing approach to evidence, which entails completion of a Request for Information form (VO6048), be tightened to ensure accounts are provided for the business to support evidence that any property is let on a commercial basis.

### **Q4 – Do you have any alternative suggestions that would similarly strengthen the criteria?**

South Hams District Council is firmly of the view that domestic properties should pay council tax on their properties, irrespective of whether they are let out or not.

Should the Government not be open to change its approach, the Council's view is that it be essential for the cross referencing with HMRC records to ensure all necessary taxation is paid.

**Q5 – Do you have any views on the option of backdating business rate bills and reimbursing council tax payments?**

South Hams District Council is firmly of the view that domestic properties should pay council tax on their properties, irrespective of whether they are let out or not. There would be no need therefore for movement between Business Rates and Council Tax should all these properties be banded for Council Tax. This would lead to no additional administration work, or the need for the Council Tax payers to be subject to any backdated bills.

**Q6 - Are there any issues regarding the administration and enforcement of the approach outlined?**

South Hams District Council is firmly of the view that domestic properties should pay council tax on their properties, irrespective of whether they are let out or not. The banding of the property would be the responsibility of the Valuation Office Agency, and there would be no need for enforcement as the approach outlined would require.

Should the Government not be open to change its approach, the Council believes the administration and enforcement of the criteria would have to rest with the Valuation Office Agency and HMRC. The Valuation Office are responsible for maintaining the list already and any additional verification / data sharing would also be easier between HMRC and their executive agency, the Valuation Office.

We would request that the capacity of the VOA and local authorities to deal with this change and of software suppliers to make any necessary changes in revenue systems should be assessed prior to implementation. This is also a reason why the Government should change its approach and enact legislation so that these properties pay Council Tax.

**Q7- Do you have any other comments on the options set out above to strengthen the criteria for holiday lets to become liable for business rates rather than council tax?**

South Hams District Council is firmly of the view that domestic properties should pay council tax on their properties, irrespective of whether they are let out or not.

Should the Government not be open to change its approach, consideration should also be given to the ability for a Local Authority to be allowed to levy a Tourist Tax on these assessments that remain in the Business Rates system. This would assist the local community and economy where these properties are still allowed to avoid paying any form of local taxation.

Any changes to the current scheme that the Government make should also be based on local government being fully compensated via S31 grant where Small Business Rates Relief is awarded to the ratepayer. Should any future reforms to business rates mean that this ceases to be the case then this would create a new burden on Local Authorities. We would then expect that this policy would be revisited, as different criteria might need to be applied to reflect this change. Equally it is essential, with Business Rates Retention, that no Local Authority is penalized on its Business Rates baseline for any change that the Government makes.