30 Monck Street
London SW1P 2AP
T: +44 (0)20 7340 0550
E: technical@ciot.org.uk

Wales: Classification of self-catering properties for local tax purposes

Response by the Chartered Institute of Taxation

1. Executive Summary

1.1. Self-catering properties in Wales are required to meet day count tests to be classified as non-domestic and therefore liable for business rates, not council tax. The tests include being let commercially (for short periods) for at least 182 nights within the same 12-month period. Five exemptions are proposed in the consultation from this actual letting condition (182 nights).

1.2. The interaction between council tax and business rates is particularly complex for holiday accommodation because of:

- the boundary as to whether the property is classed as domestic or non-domestic;
- the impact of small business rates relief (SBRR) such that the most favourable position is to be assessed to business rates, but with SBRR applying.

1.3. This complexity means that similar businesses are not always treated in the same way leading to distortions and potentially unintended consequences. However, we agree the exemptions are broadly sensible as they reflect the policy intent of removing certain limited types of domestic property that cannot be used as permanent homes.

1.4. Our main concern is the potential for increased administrative burdens for small businesses where the exemptions have a significant subjective element, particularly for the 'wider business' exemption (for businesses such as wedding venues or leisure parks) and the 'property on the owner's farm' exemption.

1.5. Safeguards may be needed to prevent manipulation of planning consents and/or merger of title to take advantage of two of the exemptions.

1.6. We suggest the introduction of annual declaration in the proposed duty to notify should ensure eligibility for the exemptions can be monitored and a tailored duty to notify form can be created to ensure relevant information can be captured and the status of the property reviewed by the Valuation Office.

2. About us

2.1. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

2.2. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

2.3. The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

2.4. Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

3. Introduction

3.1. Since April 2023, to be classified as non-domestic and therefore liable for business rates, not council tax, self-catering properties in Wales are required to meet the following tests[1]:

- It has been available to let commercially for short periods (28 nights or less) for at least 252 nights within a 12-month period;
- It will be available to let commercially for short periods for at least 252 nights in the following 12 months;
- It was actually let commercially for short periods for at least 182 nights within the same 12-month period. (From 1 April 2026, this test may be satisfied by the average number of nights over the previous 24 or 36 months across multiple units. The average must be at least 182 nights let in each 12-month period.)

3.2. Five exemptions are proposed from the actual letting condition (182 nights). These properties will be liable to business rates provided they meet the two available to let conditions. The policy rationale for removing this condition is that the let properties within the proposed exempt categories could not be used as permanent homes.

[1] Local Government Finance Act 1988, s 66(2BB)
Non-Domestic Rating (Amendment of Definition of (Domestic Property) (Wales) Order 2022, SI 2022/563

3.3. The consultation also asks for views on a 'modest' reduction in the 182-day threshold and its potential impact. We have not commented on these questions (questions 1-3) as the potential impacts are outside our area of expertise.

3.4. We observe that the interaction between council tax and business rates is particularly complex for holiday accommodation because of:

- the boundary as to whether the property is classed as domestic or non-domestic;
- the impact of small business rates relief (SBRR) such that the most favourable position is to be assessed to business rates, but with SBRR applying.

This complexity means that similar businesses are not always treated in the same way leading to distortions and potentially unintended consequences.

3.5. Our stated objective for the tax systems include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

3.6. We have not answered questions 10-11 as we have no expertise in the likely effects of the proposals on the Welsh language. We have not answered question 9.

4. Question 4: Do you agree with the proposed exemption for properties which are part of a wider business?

4.1. The exemption would apply to self-catering units that are an integral part of another business such as a wedding venue. The same exemption applies in England: SI 2026/692 Non-Domestic Rating (Definition of Domestic Property) (England) Order 2026.

4.2. It is a sensible proposal insofar that a business that is clearly not a domestic property should not have to wait for 12 months to demonstrate that it is not subject to council tax. This will allow HMRC Valuation Office to assess the business rates position correctly at the outset and remove the need for the ratepayer to commit to further administrative steps to reach the correct position.

5. Question 5 Do you agree with the proposed exemption for large multi-unit properties?

5.1. Exemption for aparthotels/serviced apartments that are subject to a single combined assessment where the property comprises 5/more self-catering units. The same exemption applies in England: SI 2026/692 Non-Domestic Rating (Definition of Domestic Property) (England) Order 2026 (as above).

5.2. As above, it is a sensible proposal insofar that a business that is clearly not a domestic property should not have to wait for 12 months to demonstrate that it is not subject to council tax. This will allow HMRC Valuation Office to assess the business rates position correctly at the outset and does not require the ratepayer to commit to further administrative steps to reach the correct position.

6. Question 6 Do you agree with the proposed exemption for properties subject to a relevant planning restriction?

6.1. We agree that it is sensible to ensure these properties do not fall into council tax as there is no prospect of permanent residential use. The current situation means that the local authority could be levying second homes premiums on property that cannot be used for permanent residential use.

6.2. However, there is a possibility that the tax position could be manipulated by obtaining planning consent and so some safeguards may be required to prevent this occurring. Possibly, the test could be fixed by reference to planning consents granted before a specified date.

7. Question 7 Do you agree with the proposed exemption for properties within the curtilage of the owner's home?

7.1. This exemption requires the self-catering unit to be on land which also includes the primary residence of the owner under the same title (our underlining). The consultation recognises that the requirement for the same title is somewhat arbitrary but points to difficulty in targeting. We observe that annexes, converted outbuildings and lodges that share a registered title with the owner's main residence are not usually capable of separate sale or long-term letting as permanent homes, so applying the historic letting criteria to such properties does little to increase housing supply while placing significant council tax and premium liabilities on genuine small tourism businesses.

7.2. However, as with the proposed exemption for planning restricted properties, there is a possibility that the tax position could be manipulated by merging titles and so some safeguards may be required to prevent this occurring. Consideration might be given to fixing the title test by reference to titles held on a specified date to prevent restructuring.

8. Question 8 Do you agree with the proposed exemption for properties on the owner's farm?

8.1. This would apply to units operated by an occupier with adjoining (exempt) agricultural land/buildings (diversification type scenarios). We agree that this exemption potentially introduces subjectivity and possible cliff edges, for example will it apply by size of farm or location? See also 9.2 below.

9. Question 12 We have asked a number of specific questions. If you have any related points which we have not specifically addressed, please use this space to record them.

9.1. From what date will the proposed exemptions take effect? We are concerned that the administrative burdens arising from the changes for ratepayers should be kept to a minimum.

9.2. For ratepayers, the exemptions would largely replace the yearly evidence of 182 letting days with a one-off proof of category, though they must still show continued self-catering use and 252 days availability. That proof should be relatively simple for the factual tests (multi-unit, planning and curtilage) but more demanding

and open to dispute for the subjective judgement-based wider-business and farm tests. Subjectivity tends to lead to additional administration for (small) businesses contrary to the consultation objective[2].

9.3. We suggest the introduction of an annual declaration in the proposed duty to notify should ensure the position can be monitored and a tailored 'duty to notify' form can be created to ensure relevant information can be captured and the status of the property reviewed.

10. Acknowledgement of submission

10.1. We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

23 October 2026

[2] *It is important that the proposed exemptions can be consistently evidenced by operators and applied by the HMRC Valuation Office, while minimising any risk of unintended consequences*.