

Explanatory Memorandum to the Council Tax (Exceptions to Higher Amounts) (Wales) (Amendment) Regulations 2026

This Explanatory Memorandum has been prepared by the Council Tax Policy and Reform Division of the Welsh Government and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Council Tax (Exceptions to Higher Amounts) (Wales) Regulations 2026. I am satisfied that the benefits justify the likely costs.

Mark Drakeford MS
Cabinet Secretary for Finance and Welsh Language
24 March 2026

PART 1

1. Description

1.1 The Council Tax (Exceptions to Higher Amounts) (Wales) (Amendment) Regulations 2026 (“the 2026 Regulations”) amend the Council Tax (Exceptions to Higher Amounts) (Wales) Regulations 2015 (“the 2015 Regulations”) by introducing a new exception at regulation 11 (Class 8). This exception applies to properties that cease to meet the criteria for non-domestic classification of self-catering holiday lets and subsequently transfer from the non-domestic rating list to the council tax valuation list. Under Class 8, a billing authority may not determine a higher amount of council tax (a premium) in respect of such a property until 12 months have elapsed following its transfer.

2. Matters of special interest to the Legislation, Justice and Constitution Committee

2.1 None.

3. Legislative background

3.1 Sections 12A and 12B of the Local Government Finance Act 1992 (the “1992 Act”) (inserted by the Housing (Wales) Act 2014) enable local authorities to apply a higher amount of council tax (a premium). Local authorities have discretion to determine the amount of the premium up to a maximum of 300% of the standard rate of council tax that applies to the dwelling.

3.2 Welsh Ministers have powers under sections 12A(4) and 12A(5) and 12B(5) and 12B(6) of the 1992 Act to make regulations prescribing dwellings which will be exempt from a council tax premium by reference to such factors as the Welsh Ministers think fit and may, among other factors, be prescribed by reference to:

- (a) the physical characteristics of, or other matters relating to, dwellings;
- (b) the circumstances of, or other matters relating to, any person who is liable for the amount of council tax concerned.

3.3 These powers enable the Welsh Ministers to make regulations which provide that the premium does not apply in circumstances where it would be unreasonable or incompatible with the policy aims. These circumstances are prescribed in the 2015 Regulations and provide classes of dwelling in relation to which a billing authority may not apply a premium to the standard rate of council tax.

3.4 The 2026 Regulations have been made using the powers in section 12B(5) and (6) and relate to properties occupied periodically. They are subject to the Senedd annulment procedure.

4. Purpose and intended effect of the legislation

- 4.1 The Non-Domestic Rating (Amendment of Definition of Domestic Property) (Wales) Order 2022 (“the 2022 Order”) amended section 66(2BB) of the Local Government Finance Act 1988 (“the 1988 Act”) increasing the minimum availability and letting thresholds that a self-catering property must meet in order to be treated as non-domestic and therefore liable for non-domestic rates.
- 4.2 From 1 April 2023, section 66(2BB) of the 1988 Act requires a self-catering property to be made available to let for at least 252 days in any 12-month period, and actually let for at least 182 days, for it to be classified as non-domestic. Previously, the thresholds were 140 days and 70 days respectively.
- 4.3 Self-catering properties that do not meet the revised thresholds are classified as domestic properties and become liable for council tax, including any premium where a billing authority has determined to apply one.
- 4.4 In 2025, the Welsh Government consulted on proposed refinements to the treatment of self-catering properties for local taxation purposes and highlighted Monmouthshire County Council’s decision to introduce a local exception from the council tax premium, providing a 12-month grace period at the standard council tax rate for self-catering properties that move from non-domestic to domestic classification. This transitional measure was recognised as particularly beneficial for properties that narrowly fail to meet the 182-day letting threshold, providing operators with time to adjust and plan, while still making a contribution to the cost of local services.
- 4.5 The Welsh Government considers that supporting self-catering operators through a stepped transition, by charging council tax at the standard rate for 12 months before any premium is applied, represents good practice. Following consultation, and having considered the responses received, the Welsh Government decided to legislate for a statutory exception to ensure that such a transitional period is applied consistently across Wales.
- 4.6 The 2026 Regulations therefore introduce a new category of dwelling under Class 8 covering properties previously classified as non-domestic under section 66(2BB) of the 1988 Act. A Class 8 property will be treated as liable for council tax at the standard rate for 12 months following a transfer to the council tax valuation list (i.e. because it is now domestic property), during which time a billing authority may not apply a council tax premium. This class applies to properties occupied periodically which fail to meet the non-domestic letting thresholds and thereby move to the domestic list.
- 4.7 This statutory exception will take effect from 1 April 2027.

5. Consultation

- 5.1 The Welsh Government undertook a public consultation between 28 August and 20 November 2025 to gather views from individuals and organisations on proposed refinements to the treatment of self-catering properties for local taxation purposes. This included a proposal for the Welsh Government to encourage local authorities to support self-catering operators whose properties move from non-domestic rates to council tax by applying the standard council tax rate for 12 months before any premium may be imposed.
- 5.2 A total of 1,211 responses were received from a broad range of stakeholders, including a substantial number of individual self-catering operators.
- 5.3 A large proportion of respondents supported the proposal, expressing the view that operators should be afforded time to adjust to additional costs where their properties become liable for council tax. Many respondents highlighted concerns about the potential impact of immediately facing a council tax premium when a property no longer meets the letting criteria. A small number suggested that the transitional period should extend beyond 12 months.
- 5.4 Among those in favour of the proposal, many respondents expressed doubt that local authorities would make sufficient use of discretionary powers to implement such an approach. Instead, they recommended that the Welsh Government introduce a statutory exception from the council tax premium to ensure consistent application across Wales. Some local authorities also suggested the Welsh Government should outline the proposed policy in legislation. The consultation documents and a summary of the responses are available at: [Proposed refinements to the classification of self-catering properties for local tax purposes | GOV.WALES](#)

PART 2 – REGULATORY IMPACT ASSESSMENT

6. Options, costs and benefits

6.1 This Regulatory Impact Assessment considers two options relating to the introduction of an additional class of exception for self-catering properties that fail to meet the non-domestic letting thresholds and therefore transfer to the council tax valuation list. Under the proposed Class 8 exception, such properties would be liable for council tax at the standard rate but would be protected from any premium for a 12-month period.

6.2 All quantified costs and benefits set out in this Assessment are based on information and data available to the Welsh Government at the time of publication.

6.3 The following two options were considered in developing the proposed amendment to the regulations:

Option 1: Do nothing and continue to encourage local authorities to apply local exceptions.

Option 2: Make regulations to introduce the Class 8 exception, coming into force on 1 April 2027.

Option 1: Do nothing and continue to encourage local authorities to apply local exceptions

6.4 The Council Tax (Exceptions to Higher Amounts) (Wales) Regulations 2015 were introduced alongside the discretionary powers for local authorities to apply council tax premiums, and include exceptions to prevent premiums being charged on specified types of second homes and long-term empty dwellings. An existing exception covers self-catering properties with a planning condition restricting permanent residential occupation. Many operators of purpose-built self-catering accommodation already benefit from this exception.

Costs

6.5 Maintaining the existing arrangements would not impose any new financial or operational costs on the Welsh Government or local authorities. Local authorities would continue using existing systems and processes for administering council tax premiums and decision-making for local exceptions.

6.6 However, self-catering operators who narrowly fail to meet the 182-day letting threshold could immediately become liable for council tax premiums. This may create sudden and significant increases in annual council tax liabilities for those who were previously paying non-domestic rates. For some operators, the shift from paying lower or no non-domestic rates

(because of rate reliefs) to paying council tax premiums, could represent a considerable financial difference in some cases.

Benefits

- 6.7 No legislative changes would be required. Retaining the existing system preserves full local discretion, allowing each authority to decide whether to offer a local exception based on local needs.
- 6.8 Local authorities may be able to collect increased council tax revenue where self-catering properties fail to meet the letting criteria, are reclassified as domestic properties, and become liable for premiums. This income can support affordable housing interventions and other local priorities.

Disadvantages

- 6.9 This option would not address concerns raised by sector representatives regarding the potential financial impact experienced by operators who narrowly fail to meet the 182-day threshold. The lack of a transitional period leaves operators vulnerable to unforeseen or marginal changes in occupancy.
- 6.10 The immediate application of a premium, of potentially several thousand pounds, may discourage investment or essential improvements, particularly among smaller operators. Over time, this could reduce the sustainability of some businesses within the self-catering sector, especially in some areas where financial margins are challenging.

Option 2: Make regulations introducing the Class 8 exception to come into force on 1 April 2027

- 6.11 Option 2 would introduce new regulations to create Class 8 of the exceptions to council tax premiums, so that from 1 April 2027 it applies to self-catering properties that move from the non-domestic rating list to the council tax valuation list after failing to meet the letting criteria.
- 6.12 Such properties would become liable for council tax at the standard rate if they do not meet the letting criteria for definition as non-domestic property, but they could not be charged a premium, notwithstanding the wide discretionary powers local authorities have in general on council tax bills.

Costs

- 6.13 Extending the Class 8 exception will have financial implications for local authorities applying premiums to second homes, as the change would restrict the number of properties on which a premium may be charged. The extent of this foregone revenue will depend on:
- how many properties fail to meet the letting criteria in a given year

- whether those properties lack an existing planning condition already providing an exception
- the level of premium set by the authority
- the council tax band into which individual properties fall
- future local decisions regarding premium levels.

6.14 Given that the number of properties which will fail to meet the letting criteria in a given year and the location and characteristics of those individual properties are unknown, it is not possible to accurately model the likely financial impacts at this stage. In areas with a large self-catering sector, the revenue forgone during the 12-month protection period may be more significant. However, premium revenue is additional revenue to the basic amount of council tax raised by a local authority to fund services.

6.15 Table 1 shows the amount of council tax premium charged in each local authority area in 2026-27. This may change over time.

Table 1: Local authorities charging a premium

Local authority	Second Home Premium in 2026-27
Isle of Anglesey	100%
Gwynedd	150%
Conwy	150%
Denbighshire	150%
Flintshire	100%
Wrexham	50%
Powys	75%
Ceredigion	150%
Pembrokeshire	125%
Carmarthenshire	100%
Swansea	100%
Neath Port Talbot	100%
Bridgend	100/200%
Vale of Glamorgan	100%
Rhondda Cynon Taff	100%
Merthyr Tydfil	100%
Caerphilly	100%
Blaenau Gwent	100%
Monmouthshire	100%
Newport	100%
Cardiff	100%

6.16 Each authority must assess the financial and operational impacts of this change, and any change in premiums in any given year, within its own local context. Decisions on whether to introduce or increase a premium

remain a matter for individual authorities, and the Welsh Government is not in a position to forecast the outcome of these decisions.

- 6.17 There may be some additional costs to local authorities in updating internal systems, billing processes and publicly available information, including website content. However, these costs are expected to be minimal and part of normal local tax administration, and can be absorbed within existing administrative arrangements.
- 6.18 There are unlikely to be any direct costs to the Welsh Government arising from this option.

Benefits

- 6.19 Introducing the Class 8 exception to the premium means that additional council tax is not charged in circumstances where Welsh Ministers consider it inappropriate to do so. The 12-month protection period offers a fair and proportionate transition for self-catering operators who fail to meet the criteria for non-domestic classification.
- 6.20 During the first round of compliance checks for the letting thresholds that were undertaken by the Valuation Office Agency in 2023, it is estimated that over 5,000 properties failed to meet the letting criteria and were moved from the non-domestic rating list to the council tax valuation list, becoming liable for council tax. It is not known how many of these were also liable for a premium, due to a lack of information regarding planning conditions that would have excepted the properties from the premium. However, it is expected that the number of such cases will be significantly lower in future years, as operators adapt to the revised letting thresholds and market conditions stabilise following their introduction.
- 6.21 Providing a consistent, national approach ensures that taxpayers in similar circumstances are treated equitably regardless of where they live or operate. This consistency reduces the risk of local variation and improves the transparency of the system for both operators and local authorities.
- 6.22 The transitional protection period helps to support the financial stability of the self-catering sector, particularly small businesses and operators in rural and coastal areas where fluctuations in occupancy levels can be unpredictable. Providing time to adjust may help operators plan effectively and avoid the disruption associated with sudden changes in tax liability.

Disadvantages

- 6.23 Local authorities may experience a reduction in premium income during the 12-month protection period for affected properties than they would have expected to collect without the Class 8 exception. However, premium revenue is additional revenue to the basic amount of council tax raised to fund services.

6.24 Some local authorities may prefer retaining full discretion to determine when transitional arrangements should apply locally. A statutory approach removes this flexibility, although it replaces it with clarity and consistency.

Option 2 Summary

6.25 Option 2 requires legislative change to create the Class 8 exception. While it may result in some loss of revenue to local authorities than they otherwise may have collected, and require minor administrative adjustments, it introduces a clear, fair and consistent national approach. The option provides a proportionate transitional support period for some self-catering operators, reduces the immediate financial impact of failing to meet the letting criteria, and aligns with stakeholder feedback.

6.26 Option 2 is the preferred option.

7. Duties

7.1 Well-Being of Future Generations (Wales) Act 2015

The introduction of council tax premiums on long-term empty dwellings and second homes was intended to help to bring empty properties back into use, to improve the supply of affordable housing and to support the sustainability of local services and communities. The additional exception for self-catering properties that have not met 182 letting days provides the self-catering sector with time to adjust while still contributing to the cost of public services at the standard council tax rate. The policy will contribute to the wellbeing objectives of a prosperous Wales; a more equal Wales; and a Wales of cohesive communities.

7.2 United Nations Convention on the Rights of the Child

No particular impact on the rights of children has been identified.

7.3 Welsh language

No effect on the opportunities to use the Welsh language or the equal treatment of the language has been identified.

7.4 Equalities

No specific impacts, positive or negative, on persons who share a protected characteristic (as determined by the Equality Act 2010) have been identified.

7.5 Voluntary sector.

No specific impacts on the voluntary sector have been identified.

7.6 Justice.

No specific impacts on the justice system have been identified.

8. Competition Assessment

8.1 No effect on competition within Wales is indicated.

9. **Post-Implementation Assessment**

9.1 Local authorities are encouraged to monitor and report on the implementation of the council tax premiums on an annual basis.

9.2 The Welsh Government will monitor the impact of extending the Class 8 exception to the council tax premium through engagement with local authorities and other stakeholders.