



HM Treasury

# Business Rates Review: Call for Evidence

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July 2020



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# Preface

**Subject of this Call for Evidence:** The government announced at Budget 2020 that it would conduct a fundamental review of the business rates system in England.

**Scope of this Call for Evidence:** The government launched its fundamental review of the business rates at Budget 2020 by publishing its Terms of Reference. As set out in the terms of reference, the government's objectives for the review are: reducing the overall burden on business; improving the current business rates system; and considering more fundamental changes in the medium-to-long term. The review will not consider residential property taxes. Similarly, the review will not consider the structure of the local government funding system.

**Who should read this:** The government seeks views from businesses and business representative organisations, local authorities, rating agents, others involved in the operation of the system and anyone interested in the business rates or wider tax system.

**Duration:** The government would like stakeholders to provide responses relating to the multiplier and reliefs sections of the review, as well as any other areas of pressing concern, by 18<sup>th</sup> September. The government would welcome responses to all other sections by 31<sup>st</sup> October.

**How to respond to or enquire about this call for evidence:** We are currently unable to respond to responses or queries sent in the post at this time. You can submit responses online via this link: [www.smartsurvey.co.uk/s/businessratesreview2020/](http://www.smartsurvey.co.uk/s/businessratesreview2020/) which can also be accessed directly via the GOV.UK webpage under the Business Rates Review Call for Evidence. Responses and general queries about the content or scope of this call for evidence can also be sent by email to [BusinessRatesReview2020@hmtreasury.gov.uk](mailto:BusinessRatesReview2020@hmtreasury.gov.uk).

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### **1. Your data (Data Subject Categories)**

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### **2. The data we collect (Data Categories)**

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It is possible that respondents will volunteer additional identifying information about themselves or third parties.

### **3. Legal basis of processing**

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HM Treasury Data Protection Unit  
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0303 123 1113

[casework@ico.org.uk](mailto:casework@ico.org.uk)  
Information Commissioner's Office  
Wycliffe House  
Water Lane  
Wilmslow  
Cheshire  
SK9 5AF

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

## **12. Contact details**

HMT is the controller for any personal data collected as part of this call for evidence, the contact details for whom are:

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[public.enquiries@hmtreasury.gov.uk](mailto:public.enquiries@hmtreasury.gov.uk)





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# Foreword

At Budget 2020, the Government published the terms of reference for a fundamental review of the business rates system. These set out our ambition not only to reduce the overall burden on businesses but also to improve the current system, in order to put the tax on a more sustainable footing and allow us to consider options for more fundamental long-term change. In March 2020, the Government took decisive steps to support the British economy through the COVID-19 pandemic with a comprehensive package of economic support, including an unprecedented full business rates holiday for retail, hospitality and leisure properties for the financial year. This support is worth £10 billion in 2020-21. On 6 May, the Government confirmed that the 2021 revaluation would be postponed to reduce uncertainty for businesses.

The Government has announced that the next revaluation will take effect in 2023. To enable the next revaluation to reflect the impact of COVID-19 more closely, this revaluation will be based on property values as of 1 April 2021. The pandemic has had a significant impact on how business is done, particularly for firms which rely on customers visiting them. The full impact of this will become clear over time. As the economy moves towards recovery, the Government will continue to support businesses as far as possible, but it must also ensure that the tax system raises sufficient revenue to fund the services that have been essential parts of the pandemic response, as well as public services more broadly. Policy changes will need to be considered in the round and particularly against the backdrop of COVID-19, as well as broader fiscal and economic considerations.

This is not the first review of the business rates system. Previous reviews have reflected a consensus that business rates have distinct strengths as a tax. These include the facts that business rates provide a significant level of revenue, are highly efficient in collecting tax due, and are an important source of funding for key local services. Where issues have previously been identified the Government has made changes in order to improve the system. However, the Government recognises that concerns remain about the level of business rates and about the wider functioning of the system and its effects on businesses. This review is therefore deliberately wide-ranging: it will consider all elements of the current system, as well as exploring the potential strengths and weaknesses of alternative property and online taxes put forward as possible replacements for rates, as recommended by the Treasury Select Committee in its report of 31 October 2019.

The Government seeks views from businesses and business representative organisations, local authorities, ratings agents, others involved in the operation of the system and anyone interested in the business rates or wider tax system. We anticipate setting out preliminary conclusions from the review on the most pressing areas in the Autumn, ahead of final conclusions in Spring 2021.

A handwritten signature in black ink that reads "Jesse Norman". The signature is written in a cursive, flowing style.

Rt Hon Jesse Norman MP

Financial Secretary to the Treasury

# Chapter 1

## Introduction

**1.1** Responsibility for the design and operation of the business rates system is shared. **Her Majesty's Treasury (HMT)** has oversight of the UK tax system as a whole and responsibility for strategic tax policy and policy development including the setting of tax rates and most reliefs.

**1.2** The **Ministry of Housing, Communities and Local Government (MHCLG)** holds the relevant legislation and is responsible for ensuring the effective administration and operation of the business rates system, including policy maintenance and implementation. More generally, MHCLG supports the delivery of high-quality local government services and sustainability of local finances.

**1.3** The **Valuation Office Agency (VOA)** is an executive agency of **Her Majesty's Revenue & Customs (HMRC)** and is responsible for the valuation of non-domestic property and land for business rates in England and Wales and maintaining accurate rating lists. The VOA also deals with valuation checks and challenges, while the independent Valuation Tribunal for England handles appeals.

**1.4** The 314 billing authorities in England are responsible for business rates billing and collection. Billing authorities are also responsible for administering reliefs introduced by central government, and for providing additional reliefs under their devolved powers. HMT is the government department with overall responsibility for the fundamental review of business rates, but will consider evidence and develop recommendations jointly with MHCLG and the VOA.

**1.5** The purpose of non-domestic rates, more commonly known as business rates, is to raise revenue to fund public services in England. The government wants to do this in a way that minimises distortions, supports economic growth, and is sustainable over time. Through this review the government is seeking to reduce the overall burden on businesses from business rates, identify practical reforms that can improve growth and the sustainability of public finances, and explore alternative systems of taxation. The government is also seeking to understand the impacts of COVID-19 on the business rates system.

**1.6** Recurrent taxes on the value of property are a very longstanding feature of the tax system in England and the business rates system continues to hold many advantages over other types of tax. Rates are easy to collect, hard to avoid and a relatively stable source of income. Business rates are also less distortive than many other forms of taxation. These positive aspects should be preserved or enhanced as far as possible through any future reforms.

**1.7** The current system of business rates was established in 1990. This system was built upon longstanding rating practice and on the principle that taxes on property should be collected locally and used to fund local services, both of which

date back many hundreds of years. While there have been many changes intended to improve the design and operation of the overall rates system, the government acknowledges that businesses and other interested parties have concerns about the effects of business rates on businesses. That is why the government is committed to a fundamental review of the system.

**1.8** This call for evidence is a crucial step in the review process. The government is keen to hear from businesses and business representative organisations, local authorities, ratings agents, others involved in the operation of the system and anyone interested in the business rates or wider tax system.

**1.9** To ensure that all stakeholders have sufficient time to engage with the review given the ongoing impacts of COVID-19, the government will focus engagement and discussion initially on certain key areas that will need to be confirmed in the Autumn, including the setting of the multipliers and on business rates reliefs. Potential reforms in other areas will be considered to a longer timeframe with a view to reaching the final conclusions of the review in Spring 2021.

## Scope

**1.10** As set out in the terms of reference, the government's objectives for this review are;

- reducing the overall burden on businesses
- improving the current business rates system
- considering more fundamental changes in the medium-to-long-term.

**1.11** At this stage in the review, the government is not consulting on the specific design of policies. It is gathering views on how the system currently works and any issues that need to be addressed, and ideas for changes to the taxation of non-domestic property that should be considered. Throughout the review, the government will consider how any changes align with the government's objectives to deliver sustainable public finances; minimise economic distortions and support growth; increase productivity; deliver a tax system fit for the 21st century; and to deliver on the UK's legally binding target to reach net zero emissions by 2050.

**1.12** The review will not consider residential property taxes, including council tax.

**1.13** Business rates are an important source of revenue for local government, and the impact on the local government funding system will be an important consideration in reviewing the tax. However, the structure of the local government funding system, including Business Rates Retention, is outside of the scope of this review.

## About this paper

**1.14** The remainder of this paper is set out as follows:

- Chapter 2 describes how the business rates system works

- Chapter 3 covers changes to improve the existing business rates system, where the government is seeking more immediate stakeholder contributions
- Chapter 4 covers other improvements that could be made to the existing business rates system, where responses are welcomed to a longer timetable
- Chapter 5 covers changes that could be made to the administration of business rates, covering the appeals process; the accuracy of the rating lists; and the billing process
- Chapter 6 invites views on alternative property and non-property-based taxes
- Chapter 7 summarises the questions that the government is asking of stakeholders
- Annex A provides further detail on the array of current business rates reliefs and exemptions

## How to contribute

**1.15** The government is seeking views from ratepayers in all sectors, their agents and representatives, local authorities who administer billing and collection, and any others who have an interest in the business rates system.

**1.16** It would be helpful for those formulating responses to the call for evidence to consider how far any proposals meet the government's aims ensuring the sustainability for public finances while reducing the overall burden of business rates on businesses.

**1.17** The government is aware that many businesses and stakeholders may need extra time to put together a full response to all of the issues in this paper. In order to allow the government to make progress on immediate issues, it would be helpful to receive responses relating to the multiplier and reliefs sections of the review, as well as any other areas of pressing concern by 18<sup>th</sup> September. The government would welcome responses to all other sections by 31<sup>st</sup> October.

**1.18** The government will consider written submissions and responses provided by respondents. The government would also like to talk directly to respondents and will work with representative bodies to set up virtual stakeholder roundtables.

**1.19** We are currently unable to respond to responses or queries sent in the post at this time. You can submit responses online via this link: [www.smartsurvey.co.uk/s/businessratesreview2020/](http://www.smartsurvey.co.uk/s/businessratesreview2020/) which can also be accessed directly via the GOV.UK webpage under the Business Rates Review Call for Evidence. Responses and general queries about the content or scope of this call for evidence can also be sent by email to [BusinessRatesReview2020@hmtreasury.gov.uk](mailto:BusinessRatesReview2020@hmtreasury.gov.uk).

# Chapter 2

## How the system currently works

**2.1** In response to the COVID-19 pandemic, the government has introduced an unprecedented new business rates relief for retail, hospitality and leisure properties for the financial year up until April 2021. This section sets out the system as it would operate under usual circumstances in the absence of this temporary relief.

**2.2** The details below relate to business rates in England only.

### Who pays business rates?

**2.3** Business rates apply to all non-domestic properties consisting of land or buildings that are not specifically exempt from rating. In general, rates are paid by the occupiers of properties, rather than owners (although the two are often the same). Where properties are unoccupied, the property owner is liable for business rates.

**2.4** There are approximately two million properties liable for business rates in England, including shops, offices and factories. These properties are listed on 'local lists'. A small number of properties such as nationwide utility networks are less suited to listing in local lists and are instead listed on the 'central list'.

**2.5** The total Rateable Value (RV) of all property, on local lists, liable for business rates in England is £64 billion. Around 25% of this value is in retail property, 23% in offices, 21% in industrial property, and the remaining 30% in other sectors including transport, utilities, hotels, health and education.<sup>1</sup>

### The frequency of valuations

**2.6** From 1990 to 2010, business rates revaluations took place every five years. In May, the 2021 revaluation was postponed to reduce uncertainty for businesses affected by COVID-19.<sup>2</sup> The government has announced that the next revaluation of non-domestic property in England will take effect on 1 April 2023. To enable the next revaluation to better reflect the impact of COVID-19, this revaluation will be based on property values as of 1 April 2021.

**2.7** At each revaluation, a transitional relief scheme is introduced to limit the impact on ratepayers of significant increases in RVs by gradually phasing in changes to ratepayer bills. Previous schemes have been funded by equivalent limits on the rate at which bills can decrease for those seeing significant reductions in RVs.

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<sup>1</sup> 'VOA Rating List Downloads', Valuation Office Agency, 2020.

<sup>2</sup> 'Business Rates Revaluation Postponed', Ministry for Housing, Communities and Local Government, 2020.



## How a business rates bill is produced

2.8 A business rates bill consists of:

- The RV of a property multiplied by the business rates multiplier
- Reliefs applied where the ratepayer is eligible for them, including transitional relief.

### Rateable value

2.9 The RV of a property represents the estimated open market annual rental value of that property at a set point in time – this is the Antecedent Valuation Date (AVD), which is two years before a new rating list comes into force.

2.10 The RV of a property is determined by the VOA using rental evidence. For properties which are not normally let, the VOA has two alternative methods of valuation – the receipts and expenditure basis, and the contractors' basis. These and the valuation process are explained in section 4.1a.

### Business rates multiplier

2.11 There are two business rates multipliers set by central government. The 'small business multiplier' applies to properties with RVs below £51,000, and the 'standard multiplier' applies to properties with RVs of £51,000 or more. Around 1.8 million properties, out of approximately 2 million rateable properties in England, use the small business rates multiplier.

2.12 The multipliers are explained in more detail in section 3.2.

### Reliefs

2.13 Central government provides several reliefs to ratepayers. Local authorities are also able to offer discretionary reliefs. These are set out in section 3.1.

## How business rates are collected

2.14 There are 314 billing authorities in England. Business rates are administered by these authorities, who calculate, collect and enforce business rates bills. While calculating individual bills it is the responsibility of each authority to determine the eligibility of ratepayers for any reliefs provided by central government, and to apply any further relevant local reliefs. Bills are usually paid over a 10-month period, though ratepayers can request that payments are spread over 12 months.

2.15 As a property-based tax, business rates are typically hard to avoid, which ensures a very high collection rate and the sustainability of the income. In 2018-19, billing authorities achieved an average collection rate of 98.3%.<sup>3</sup>

## How revenues are used

2.16 Business rates are an important source of funding for key local services such as adult social care and children's services.

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<sup>3</sup> 'National non-domestic rates collected by councils in England: forecast for 2020 to 2021', Ministry of Housing, Communities and Local Government, 2020.

2.17 When the current business rates system was introduced in 1990, all business rates collected by councils formed a single national pot. This was then distributed to local councils via a formula grant. Since April 2013, the government has operated a business rates retention scheme. Under this scheme 50% of all business rates revenue is retained by local government, with more retained in some pilot growth areas. This is to provide an incentive for local councils to facilitate growth and the creation of new businesses in their local area.

# Chapter 3

## Improving the business rates system: tranche one responses

### 3.1 Reliefs

3.1 Central government provides for several business rates reliefs that are intended to support certain businesses, promote growth and investment, or simplify the rates system. Billing authorities also have powers to offer additional reliefs. Where reliefs are introduced by central government the entire cost of the relief falls to the Exchequer. Where local authorities introduce reliefs, the costs are shared between central and local government. Some buildings and land are exempt and so are not assessed for business rates at all.

3.2 In 2018-19, businesses benefited from £4.25 billion in mandatory relief.<sup>4</sup> The largest of these reliefs are Charitable Rate Relief (cost £1.93 billion in 2018-19) and Small Business Rate Relief (SBRR) (cost £1.26 billion in 2018-19).<sup>5</sup> Over one third of non-domestic properties do not pay any business rates at all due to SBRR. Further reliefs and exemptions are set out in Annex A.

3.3 In March 2020, in response to the economic impact of the COVID-19 pandemic, the government introduced an unprecedented full business rates relief for retail, hospitality and leisure properties for 2020-21, saving businesses £10 billion through centrally funded rates relief.

### Business rates relief principles and concerns

3.4 Tax reliefs can serve many different purposes, such as supporting social or economic objectives, improving the progressivity of a tax, or simplifying the tax system. When considering the introduction of new reliefs, and as part of the process of reviewing existing reliefs, the government takes into account how effectively reliefs meet their objectives, whether they represent value for public money, whether they generate unintended consequences such as distorting decisions on use of property, and risks from avoidance or abuse. In delivering changes to tax reliefs the government is also committed to ensuring that changes are predictable, and that they maintain stability and support the simplification of the tax system.

3.5 Stakeholders have noted several concerns about the current system of business rates reliefs:

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<sup>4</sup> 'National non-domestic rates collected by councils in England: 2018 to 2019', Ministry of Housing, Communities and Local Government, 2020.

<sup>5</sup> Ibid

## Complexity

**3.6** The number of reliefs available to ratepayers has increased over time. Several stakeholders, including the Treasury Select Committee, have suggested that the number of business rates reliefs available is evidence that the system is 'broken'.<sup>6</sup> While the government does not agree with that assessment, it is aware of wider concerns about the complexity of rates reliefs. Individual properties may be eligible for multiple different reliefs. The administration of reliefs can vary between billing authorities and overlaps in eligibility can make the relief system confusing and mean that some ratepayers do not understand what reliefs they are entitled to.

## Capitalisation and targeting

**3.7** Several business rates reliefs are intended to provide targeted support to businesses. However, as suggested by economic theory, recent studies have provided evidence that business rates cuts are 'capitalised' into higher rents over time and so benefit landlords over ratepayers.<sup>7</sup> This is because landlords can raise the cost of rent, knowing that the occupier is benefitting from a reduced tax bill.

**3.8** Stakeholders have also suggested that certain reliefs are poorly targeted in other ways. Eligibility for SBRR for example, is based on the RV and number of properties a business occupies, as business rates is based on the characteristics of the property. Critics have highlighted that this leads to significant regional variation in eligibility for SBRR and can mean some businesses with high turnover or a high number of employees benefit from SBRR, when not defined as a small business on other measures.

## Eligibility and administration

**3.9** Local authorities are responsible for introducing and administering their own reliefs and administering and determining eligibility for reliefs set by central government. Eligibility for reliefs can be determined by the type of business operating within a property, the RV of the property, the location of the property, or other discretionary factors, such as hardship.

**3.10** Several stakeholders have suggested that, given their more detailed understanding of the local economy and the specific circumstances of local ratepayers, local authorities should play a greater role in, or even be solely responsible for, setting business rates reliefs. Some have suggested that central government should provide limited additional funding to local authorities to facilitate greater use of their discretionary powers. Others have highlighted that greater local variation in reliefs could create economic distortions.

## Sustainability

**3.11** The introduction of additional reliefs over time has had the effect of narrowing the business rates base. This is particularly true of the single-year relief introduced for 2020-21 in response to COVID-19, which has reduced rates revenue by approximately 40%. Stakeholders have raised concerns that this increases the demands on other parts of the tax system and undermines the sustainability of public finances, and that the number and generosity of rates reliefs should be reduced. The current COVID-19 business rates relief will expire in April 2021 and the

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<sup>6</sup> 'The Impact of Business Rates on business inquiry', Treasury Select Committee, 2019.

<sup>7</sup> 'Business Rates: Who pays and why it matters', Regeneris Consulting, 2015.

government will need to consider all reliefs, in the round, and particularly against the broader backdrop of the post-COVID-19 fiscal and economic considerations.

## Abuse

3.12 There is evidence that some ratepayers are avoiding paying rates through the misuse of reliefs, particularly Empty Property Relief.

3.13 Misuse of empty property relief can include:

- contrived reoccupation of property, for example, by storing boxes of files
- owners granting leases on vacant properties to charities claiming the property will be used for charitable purposes when next in use
- misuse of insolvency exemptions, including where properties are leased to special purpose vehicle companies.

3.14 While some of these approaches operate within the letter of the law, these artificial arrangements are enabling certain ratepayers to gain an unfair tax advantage that parliament never intended. Changes to Empty Property Relief could help tackle avoidance. The government is also aware of tax evasion of SBRR through businesses claiming SBRR on multiple properties, in contravention of the legislation.

3.15 In light of these concerns the government is seeking evidence on whether and how reliefs can be simplified, targeted more effectively to ensure value for public money, made robust against abuse, or how the design and administration of business rates reliefs can be otherwise improved to ensure the sustainability of public finances.

### 3.1 Reliefs: Questions

- 1 How well do current reliefs and exemptions deliver their intended outcomes and satisfy the principles of good tax design? What changes would you suggest to the system?
- 2 How can reliefs be targeted more effectively? How can reliefs and their administration be simplified?
- 3 What evidence is there on the capitalisation of business rates and business rates reliefs into rents over time? What does any evidence mean for the design of rates reliefs and business rates more broadly?
- 4 What role should local authorities have in determining business rates reliefs and exemptions? Should reliefs and exemptions be set by central government or set locally?
- 5 Are you aware of ratepayers misusing tax reliefs or other means to avoid paying their full business rates liability? What could be done to tackle this?

## 3.2 The business rates multiplier

3.16 The business rates 'multipliers' are the tax rates used to determine business rates bills. There are two different multipliers. The small business multiplier is currently 49.9p and applies to properties with a RV below £51,000. The standard multiplier applies to properties with a RV of £51,000 or more and is set by adding a 'supplement' to the small business multiplier. The supplement is currently 1.3p, making the standard multiplier 51.2p. The supplement was introduced to fund the cost of providing SBRR.

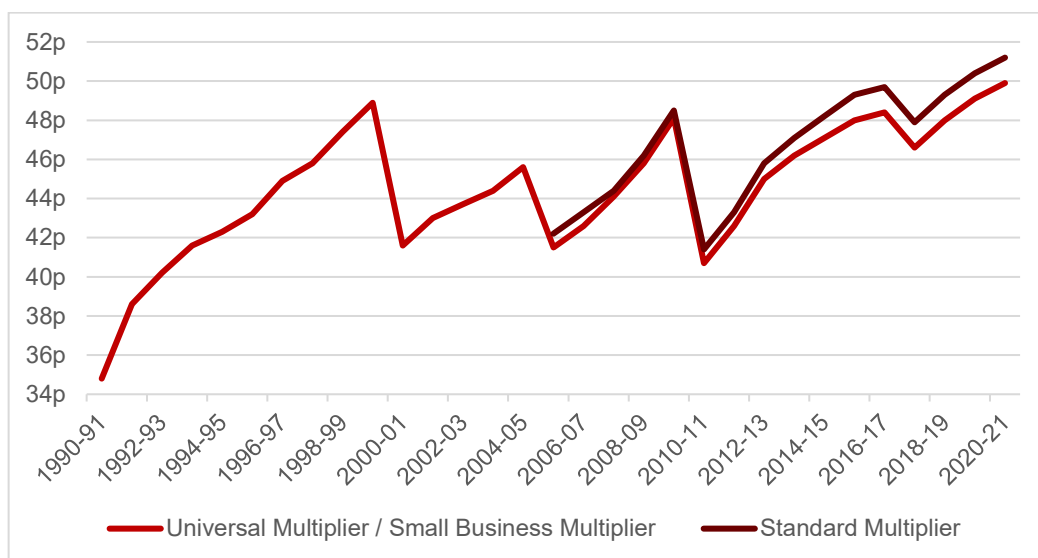
3.17 The small business multiplier is increased on 1 April every year by the Consumer Price Index (CPI) measure of inflation. Until 2018, the multiplier was updated by Retail Price Index each year. Up-rating by inflations ensures that business rates revenues are maintained in real terms each year.

3.18 When a business rates revaluation takes place, there is an additional adjustment made to the small business multiplier. The multiplier is adjusted to account for the estimated overall change in total RV due to the revaluation, after anticipated future changes due to appeals. The objective of this adjustment is to ensure as far as possible that, once all future appeals have been resolved, business rates revenues do not rise or fall in real terms as a direct result of the revaluation.

3.19 Rates revenues may change over time where total RV change because of, for example, the construction or demolition of property, or alterations made to existing property.

3.20 The previous effects of these adjustments are shown in Figure 1 below. The multipliers rise each year by inflation and then, in revaluation years (2000, 2005, 2010, 2017), the multipliers fall. The fall in the multipliers has been more significant when there has been a greater than expected increase in total RVs at the revaluation. However, if expected aggregate RVs were to fall at a revaluation, this would be automatically offset by higher multipliers and businesses would be required to pay a higher proportion of their RVs in business rates.

Figure 1: Business rates multiplier(s) over time



## Proposed options for the multipliers

3.21 The government is seeking views on how the multiplier(s) are set. Many ratepayers have raised concerns about the level of the business rates multiplier, the rate at which the multiplier has increased since 1990, and the rate at which it may change in future.

3.22 Some stakeholders have noted the advantages of the current uprating approach, that it provides a great deal of certainty to local authorities and to the Exchequer and enables ratepayers to broadly estimate their future bills.

3.23 Others have been critical of the approach, arguing that it makes business rates unresponsive to changes in the property market. Some of the suggested alternatives include:

- freezing the multipliers indefinitely, including at revaluations
- including changes in RVs from constructions, demolitions, and alterations in the adjustment made to the multiplier at revaluations
- ending the revaluation adjustments for changes in RV and offsetting the annual CPI changes at revaluations so that at each revaluation the multipliers return to the same level.

3.24 Various stakeholders have also called for the government to either remove the standard multiplier supplement so that all properties are taxed at the same rate, change the threshold at which the standard multiplier applies, or introduce new multipliers that vary with:

- **geography** – applying different multipliers in different areas. Local authorities are currently, subject to certain ballot requirements, able to apply a supplement to the multiplier although few authorities do so.<sup>8</sup> Stakeholders have suggested giving authorities more flexibility to adjust the multiplier through, for example, a reversion to the pre-1990 rates system with each authority able to set the multiplier independently in their area, or a system like that in Northern Ireland with central and local government each setting their own tax rates which combine to give a single multiplier in each district.
- **value** – additional higher multipliers for the most valuable properties, or lower multipliers for less valuable properties.
- **property type** – introducing different multipliers for different types of properties, such as shops, offices or warehouses.
- **reliefs** – introducing new multiplier supplements on certain properties to fund reliefs for others.

3.25 The government is seeking views on alternative methods of setting the multiplier each year, and at revaluations, when the value of the tax base is updated. Respondents are encouraged to consider how changes to the multiplier could benefit the widest range of ratepayers while managing the overall cost, and to

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<sup>8</sup> 'Business Rates Supplements Act', UK Public General Acts, 2009.

recognise the wider impacts of the level of the multiplier on government policy and the funding of essential public services.

### 3.2 The business rates multiplier: Questions

- 6 What are your views on how the business rates multiplier is set annually and at revaluations?
- 7 How could the multiplier be set in future to ensure the sustainability of public finances and support growth and productivity? What would the impact of any proposed changes be on the level of the multiplier and revenue from business rates over time?
- 8 How should the multiplier and any supplements relate to business rates reliefs? Should these be discrete, or should supplements fund specific reliefs?
- 9 What are your views on introducing additional multipliers that vary by geography, property value, or property type?



# Chapter 4

## Improving the business rates system: tranche two responses

### 4.1a Valuation

4.1 A ratepayer's bill is determined by multiplying their property's RV by the relevant multiplier and then applying reliefs. In assessing RV, the VOA seeks to ensure that properties which have the same characteristics are valued using the same method of valuation and in a uniform manner to arrive at valuations which are consistent for all ratepayers. RV is set as the estimated rent for an annual tenancy of a property, at a common point in time – the AVD.

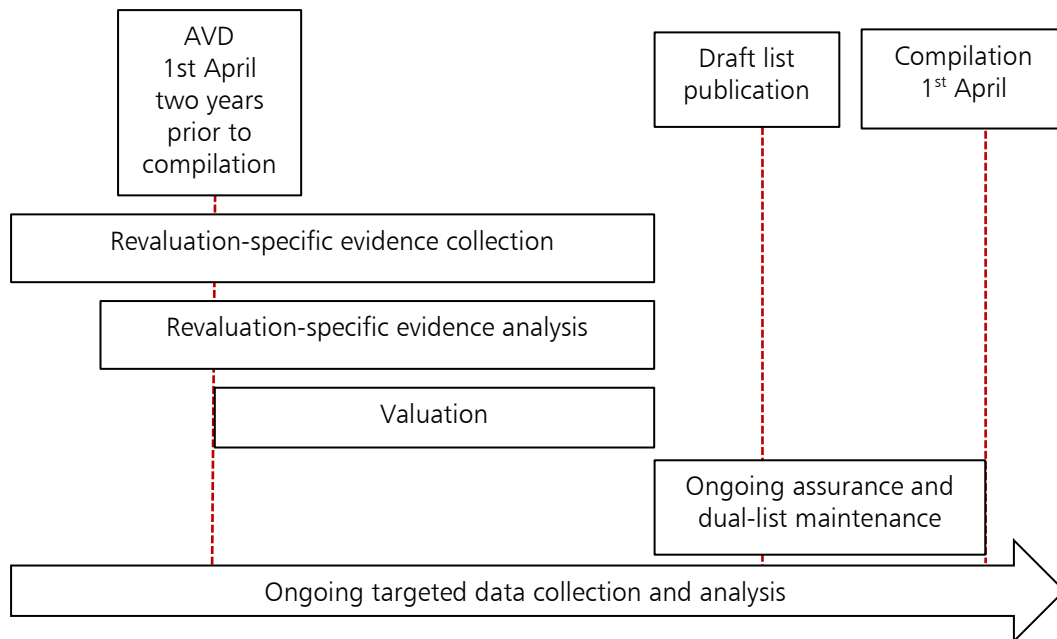
4.2 Some ratepayers are critical of the business rates system because their property's RV does not reflect the current rent they pay, and because they believe the system is slow to reflect changes to the value of a property. However, the current business rates system is not intended to reflect the specific amount of rent paid by individual ratepayers. It instead prioritises consistency of treatment of similar properties and the estimated open-market rental value of properties.

### Revaluation process

4.3 In considering the responsiveness of the business rates system and the frequency of revaluations it is helpful to understand the three phases to the VOA's work at a revaluation:

- **Evidence gathering** – collecting all relevant information (including information on the property, the local market and national market)
- **Analysis** – assessing evidence to develop an understanding of the market at the AVD
- **Valuation** – applying market analysis to individual properties to determine values.

Figure 2: Revaluation Process



## Frequency

4.4 From 1990 to 2010 business rates revaluations took place every five years. In recent years however, events have required the government to make several necessary changes to the valuation cycle.

4.5 In 2012, the 2015 revaluation was delayed by two years to 2017 to provide greater stability for ratepayers during a period of relative economic uncertainty. Then, in line with the recommendations made following the last review of business rates, the government introduced legislation to bring forward the next revaluation from 2022 to 2021, so that there was a four year gap between revaluations, as part of a broader move towards three-yearly revaluations in the future. Subsequently, on 6 May 2020, the government announced that the 2021 revaluation would be postponed to reduce uncertainty for businesses affected by COVID-19.<sup>9</sup> The government has announced that the next revaluation of non-domestic property in England will take effect on 1 April 2023.

## AVD

4.6 There is currently a two-year lag between the AVD and revised valuations taking effect on the 'compilation date'. This gap is necessary under the current system in order to ensure that the VOA has sufficient time to gather relevant evidence and produce consistent valuations.

## The case for more frequent revaluations

4.7 The principal argument made in favour of more frequent revaluations is that this would ensure relative changes between properties are more frequently updated and that, as a result, the relative burden of the tax is redistributed more often. This argument is reflected in the changes announced following the last business rates revaluation.

<sup>9</sup> 'Business rates revaluation postponed', Ministry of Housing, Communities and Local Government, 2020.

4.8 As was found in earlier consultations, more frequent revaluations do not necessarily result in less volatility in ratepayers' bills. Internationally, there is significant variation between tax jurisdictions on the approach to revaluation with some jurisdictions such as France and California having no commitment to frequent revaluations, others increasing all valuations annually by inflation as a proxy for growth in property values, and some jurisdictions such as the Netherlands and Hong Kong completing revaluations annually.<sup>10</sup>

4.9 As illustrated above in figure 2, the process of revaluation is lengthy, and generally takes the VOA between 25 and 29 months with most of the work falling after the AVD. Under a three-yearly revaluation cycle, once a revaluation happens, there will be significant demands on the VOA to rapidly begin preparations for the next revaluation. This will inevitably limit the resources available to deal with valuation challenges and other ratepayer enquiries. Without further changes, any further move to more frequent revaluation could adversely affect the VOA's ability to deal with all of its functions in a timely manner.

### The case for a different AVD

4.10 Some stakeholders have, in previous discussions, focused not on the frequency of revaluations but instead on the time between the AVD and compilation date. They have argued that the current two-year gap means that valuations are already 'out of date' by the time they come into effect, and that reducing the time between the AVD and the compilation date would mean that valuations more closely reflect current market values. However, as highlighted above, the current valuations process requires an AVD gap of two years in order to ensure there is sufficient time to gather relevant evidence and the government has concerns that a shorter AVD gap would likely lead to a loss of market evidence, resulting in a detrimental impact on the accuracy of valuations.

4.11 Given the announced delay of the next revaluation, the government is seeking views on what, going forward, an appropriate frequency of revaluations might be, the benefits and trade-offs of different approaches, and what changes to the valuations process might be necessary. This section sets out some of the options that could facilitate more frequent revaluations and highlights the trade-offs involved. The government is also seeking views on the benefits and trade-offs involved in changing the AVD gap.

### How more frequent revaluations could be achieved

4.12 Previous consultation found that there was little appetite for revaluations to be done through a system of ratepayer self-assessment or through a formula-based system.<sup>11</sup> Alternatively, more frequent revaluations could be achieved through changes to the valuation basis that move away from precise valuations for individual

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<sup>10</sup> ['Chapter 4- Local Economic Contribution; Overview of the French tax system', Public Finances Directorate, 2016.](#)

['California Property Tax', California State Board of Equalization, 2018.](#)

['How do municipalities value properties?', Government of the Netherlands.](#)

['How property tax is computed', Hong Kong Government, 2020.](#)

<sup>11</sup> ['Business Rates: Delivering more frequent revaluations', Her Majesty's Treasury, 2018.](#)

properties or through changes to the way in which the information necessary for revaluations is collected.

## **Banding**

**4.13** Under this model, non-domestic properties would be placed into bands, with charges based on the RV of each individual band, in a similar way to the Council Tax.<sup>12</sup> A banded approach would move RVs further away from the intrinsic characteristics of the actual property the ratepayer may occupy, thereby sacrificing the degree of specificity achieved under the current system. For some, this would result in being assessed on a higher RV than might otherwise be the case. For others it would be lower.

## **Zoning**

**4.14** Under this model, RVs would be determined by applying a fixed price per square metre (unit price) to properties within a specific zone. Zones could be determined by geographical area, the sector within which the property was used, rental markets or a combination of these factors. Unit prices for specific zones could allow for the use of a broader range of evidence from all properties within a zone but, as with banding, would also move RVs further away from their actual circumstances reducing the specificity of their valuation. A zoned system would similarly result in some being assessed on a higher or lower RV than might otherwise be the case.

## **Greater information provision**

**4.15** Alternatively, more frequent revaluations could be achieved by improving the VOA's access to good quality rental information, in a digital format, in order to reduce the time needed for the evidence gathering stage of the revaluation process. This could be achieved through the introduction of an obligation for ratepayers to provide more frequent rental and lease information as outlined in section 5.2.

## **Other valuation options**

**4.16** The changes set out above would all serve to facilitate more frequent revaluations. Others have suggested a number of other changes that could be made to the valuation process.

## **Events-driven revaluations**

**4.17** Rather than revaluing all properties together, revaluations of individual properties could be triggered by 'relevant events'. Relevant events could for example, include a transfer of property ownership, lease renewal or rent review. While this could, subject to which events were deemed to trigger a revaluation, reduce the frequency of revaluations for some properties, this would better align changes to RVs with events known to the ratepayer.

## **Regional or sectoral revaluations**

**4.18** Alternatively, revaluations could be done on a regional or sector basis. This could involve revaluation of properties in a limited number of regions on a rolling yearly basis or on specific sectors, again on a rolling yearly basis. While smaller revaluations could lead to annual revaluation exercises, it is unlikely to deliver more

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<sup>12</sup> 'Paying the Right Level of Council Tax', Ministry of Housing, Communities and Local Government, 2019.

frequent revaluations for ratepayers in individual regions or sectors. Such an approach could also create disparities in valuations at regional boundaries and complexity in defining specific sectoral boundaries.

## Alternative valuation bases

**4.19** As set out in section 2, the RV of a property represents the estimated open market annual rental value of that property at the AVD. In determining RVs, the VOA uses the three established methods of valuation used by all surveyors within the non-domestic property market:

**Figure 3: Valuation methods**

Rental Comparison Basis	Determined by comparing rental evidence for similar properties.	~ 95% of properties in Local Lists, ~ 82% of total RV
Receipts & Expenditure Basis	Used where comparable rental information is not available. Calculated to reflect the notional rent based on a reasonable assumption of revenue expectations.	~ 2% of properties in Local Lists, ~ 6% of total RV
Contractor's Basis	Used where there is no comparable rental evidence and the property is not occupied in pursuit of profit. The value of land and cost of replacing the building is used to determine a notional annual rent.	~ 3% of properties in Local Lists, ~ 12% of total RV

**4.20** The VOA publishes general guidance online, as well as more in-depth explanations for all property types in the Rating Manual.<sup>13</sup> At each revaluation, the VOA undertakes market analysis and stakeholder consultation to understand and, where possible, agree the most appropriate approach of valuing specific property types.

**4.21** As above, some of the current criticism from stakeholders stems from their perceptions that their property's RV is abstract and does not necessarily reflect the amount of rent they pay.

## Changing the definition of rent

**4.22** Rental information is fundamental to the current valuation approach. The VOA analyses and adjusts all rental information from discrete locations for particular types of property, for example shops in a high street.

**4.23** Some ratepayers would like a system that is more directly based on the actual rent they pay. This would mean changing the definition of rent in the valuation process, from estimated open market annual rental values. Many properties are not rented, and so any valuation system will need a basis on which to value these properties.

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<sup>13</sup> 'How non-domestic (business) properties are valued', Valuation Office Agency, 2017.

'The Rating Manual', Valuation Office Agency, 2014.

## Capital values

4.24 The current valuation system is based on the rental value of a property. An alternative approach would be to value the capital value of the property. This is covered in section 6.

### 4.1b Transitional relief

4.25 Previous revaluations have included transitional arrangements to help those ratepayers facing large increases in their bill. In designing a transitional relief scheme, there is a trade-off between supporting businesses and updating the tax base to ensure ratepayers are paying the right amount of tax.

4.26 When introducing transitional arrangements, the government must have regard to the object of ensuring (as far as possible) that the scheme is revenue neutral over its lifespan. For previous revaluations, the government has designed transitional relief to limit the effect of large changes in RVs between revaluations through caps on how much a property's bill can increase or decrease by each year. These caps differed depending on the value of a property. Stakeholders have raised two main concerns with this approach – that capping annual bill increases means some ratepayers may not reach their full bill before the next revaluation, and that caps on decreases lead to higher bills for ratepayers whose RVs have fallen between revaluations.

#### 4.1 Valuations and transitional relief: Questions

- 10 What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?
- 11 What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?
- 12 What are your views on changing the valuation process or the information provided to the VOA, to enable more frequent revaluations?
- 13 What are your views on the relative importance of the period between the AVD and compilation of the list vs. more frequent revaluations?
- 14 What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?
- 15 If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?
- 16 What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

## 4.2 Plant and machinery and investment

4.27 Plant and machinery (P&M) is the physical equipment in or on a non-domestic property, other than the structures or buildings themselves. Common examples include lighting systems, lifts and machines used on production lines. For business rates valuation purposes, all items of P&M are exempt unless the P&M regulations specifically list them as needing to be considered in valuations. Therefore, in a business rates context, P&M is confined to this defined list of items.

The Valuation for Rating (Plant and Machinery) (England) Regulations 2000 set out a list of potentially rateable P&M under four classes:

*Class 1: 'power generation, storage and transmission etc.'*, *Class 2: 'services – heating, lighting, water supply, hazard protection etc.'*, *Class 3: 'infrastructure - telecommunications cables, wires, lifts, pipelines, railway tracks etc.'* and *Class 4: 'named structures such as masts, bridges, dams, fixed cranes and tanks'*.

4.28 Many of the defined items are often referred to as 'service' P&M which allow the property to be used for its intended purpose. For example, heating and lighting are essential to use a building as a factory, so these are of value and are considered in a property's valuation.

4.29 However, the listed P&M is exempt from a property's valuation if it is used in connection with the occupier's specific activities. For example, if a factory is used to prepare food, the P&M used to control the temperature for hygiene purposes will be exempt. This is known as 'process' P&M and the exemption is often referred to as the 'tools of the trade' exemption.

4.30 The P&M regulations are based on the principles described above, which were expressed by the 1993 Wood Report.<sup>14</sup>

- (1) that the land and everything which forms part of it and is attached to it should be assessed;
- (2) that process P&M which can fairly be described as "tools of the trade" should be exempt within certain limits;
- (3) that process P&M (in certain cases exceeding a stated size) which is or is in the nature of a building or structure or performs the function of a building or structure should however be deemed to be part of the hereditament or subject;
- (4) that service P&M, and items forming part of the infrastructure of the property should be rated; and

<sup>14</sup> 'Rating of Plant and Machinery: a Report by the Wood Committee', Department of the Environment, Scottish Office, 1993.

(5) that, in the case of P&M which performs both a service and process function sensible lines have been drawn which will indicate exactly how much falls to be rated and how much does not.

**4.31** The 'tools of the trade' exemption therefore seeks to encapsulate the behaviour of the property market, i.e. P&M which makes property useable by any occupier is valuable in the property market whilst the P&M which is specific to the incoming occupier's intentions is not. As a result, most P&M used in a specific productive process is exempt from business rates.

**4.32** As business rates are a tax on the open market rental value of property, more tax is due on more valuable properties. Similarly, if a property is changed so as to become more valuable, its RV and tax liability are likely to increase. Such an increase could occur following improvements made to service P&M contained within a property, such as the installation of a lift or a new security system. Such an increase could also occur following other property improvements such as an extension, which are not related to P&M. This is integral to the nature of a property tax based on accurate values.

## Proposed options relating to P&M and investment

**4.33** Although most P&M that is used in conjunction with the specific occupier's business needs is excluded from business rates, several stakeholders have raised concerns that the rules regarding P&M are out of date, or that the treatment of P&M and/or physical improvements to properties are barriers to investment and growth. Often these concerns are focused on a perceived need to support investment in specific types of P&M such as digital infrastructure or security systems.

**4.34** The government has also heard various proposals on how the business rates system might support decarbonisation through, for example, reliefs or exemptions for certain P&M used in energy generation or to improve energy efficiency, or the imposition of a higher rates burden on less energy efficient buildings, or those used for fossil fuel based generation.

**4.35** Possible options for reform to address these concerns include:

- Reviewing and updating the P&M principles - some have questioned whether the principles established by the Wood Report are still appropriate given changes in the commercial property market such as the development of new technologies. The government is seeking views on where the current principles are out of date and how they could be improved upon.
- Exempting some currently rateable P&M from business rates – this has been suggested as a means of incentivising additional investment in P&M. The government is therefore seeking evidence on the potential costs and benefits of exempting specific types of P&M from rating, and how any associated practical challenges can be addressed.
- Providing a temporary relief or exemption for new investments – stakeholders have argued for a time-limited relief to encourage certain



property investments, such as new builds, renovations, installation of rateable P&M, or other improvements that might increase RV. Time limited exemptions are already available in England for microgeneration P&M and new fibre infrastructure. Similar measures exist in Scotland and Wales to support growth and investment.

**4.36** The government is seeking views on potential changes to the treatment of P&M, and is particularly interested in responses that provide evidence of the economic benefits of any reforms, and consider the practical challenges of implementation.

#### **4.2 Plant and machinery and investment: Questions**

- 17 What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?
- 18 Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?
- 19 What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?
- 20 What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?
- 21 How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?
- 22 How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?

# Chapter 5

## The administration of business rates

### 5.1 Valuation transparency and appeals

#### Check, Challenge, Appeal

5.1 The 'Check, Challenge, Appeal' (CCA) system allows ratepayers to see and amend the details the VOA holds about their property, propose alternative values, including in instances where there has been a material change of circumstances, and appeal the outcome to the Valuation Tribunal Service.

5.2 The government introduced the new CCA system in 2017 because the previous system faced significant challenges. Over 1 million cases were received from ratepayers on the 2010 rating list. Many of these were submitted with little or no evidence and around 70% of appeals resulted in no change.<sup>15</sup> This caused delay and uncertainty for all parties and meant the VOA found it both difficult and time consuming to separate well founded cases from speculative ones, and that resource was unhelpfully diverted, restricting the VOA's ability deal with genuine cases in a timely manner.

5.3 The government recognises that ratepayers experienced issues when CCA launched, particularly with supporting software. The VOA has since improved, and continues to develop, the digital service.

5.4 The CCA system has not yet gone through a full revaluation cycle so a full assessment of its impact is not yet possible. The MHCLG Interim Review of CCA set out the advantages of the system seen so far, including the accessibility of the 'Find and check your business rates valuation' service on gov.uk, the detailed valuations now available before a Check is submitted, and information sharing at the Challenge stage.<sup>16</sup>

5.5 Stakeholders have, however, made it clear that they would like quicker responses through the CCA system and suggested that more valuation information should be made publicly available. While the VOA has a legal duty to protect the information it collects, including information on commercially sensitive agreements, the government would welcome evidence on the benefits of providing more information to ratepayers and views on any challenges this would involve.

5.6 While a direct comparison with the previous appeals system is not possible, the number of cases has reduced since the introduction of CCA, with the majority being resolved at the check stage. To date, this has meant that most ratepayers have

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<sup>15</sup> 'Challenges and changes against the 2010 Local Rating List, England and Wales', Valuation Office Agency, 2019.

<sup>16</sup> 'Check, Challenge, Appeal – Interim Review of Reforms to the Business Rates Appeals System', Ministry of Housing, Communities and Local Government, 2020.

not had to move on to the challenge stage. Of those that do move on to the challenge stage, most result in a reduction to the RV, further reducing the number that progress to appeal stage, which is how the system was designed to work. Nevertheless, the government recognises that ratepayers would like to see their cases dealt with more quickly. As set out in section 1 above, the VOA is responsible for maintaining accurate rating lists, revaluing non-domestic property and dealing with the Check and Challenge stages of the CCA system. Greater VOA efficiency might be supported by providing greater transparency for ratepayers on the information the VOA holds or, as covered in section 5.2 below, by improving volume and quality of information provided, by ratepayers, to the VOA.

## Grounds of challenge and who can make a challenge

**5.7** The different grounds for challenge are set out in legislation.<sup>17</sup> These are wide ranging and include tribunal decisions; additions and deletions; splits and mergers; and physical changes to how the property is used or to the surrounding area and how other properties are used. The legislation also sets out the parties who are entitled to use the CCA system. These include the owner, occupier, and persons with a qualifying connection to the owner or occupier. The result is that many different parties have the potential, throughout the rating period, to make a check or challenge and therefore change the liability of the ratepayer.

**5.8** The government is seeking views on further improvements that could be made to reduce the complexity of the CCA system, and particularly on who can use the CCA system, when and on what grounds, and whether this should be changed.

### 5.1 Valuation transparency and appeals: Questions

- 23 What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?
- 24 What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?
- 25 What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?

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<sup>17</sup> 'The Non-Domestic Rating (Alteration of Lists and Appeals (England) Regulations 2009', UK Statutory Instruments, 2009.

## 5.2 Maintaining the accuracy of rating lists

5.9 Rating lists are a compilation of the RVs of all non-domestic properties in England. They are compiled and maintained by the VOA and updated at each revaluation. Well maintained lists, where changes to the list which impact the RV of a property are accounted for, support the efficient administration of business rates by enabling billing authorities to issue up to date bills that accurately reflect the value of the occupied property.

5.10 If lists are not maintained, this increases the risk that bills become inaccurate and that some ratepayers pay more or less than the right amount in business rates. Inaccuracies can arise when the VOA is not made aware of significant changes to a property which could affect its RV which, when addressed, can lead to substantial back-dated liabilities for ratepayers.

5.11 The VOA does not routinely request information for all properties but does, through its ongoing Rent and Lease Data (RALD) process, request information, such as rent paid, from a large number of ratepayers in order to maintain accurate rating lists. Ratepayers can use an online portal to submit key rental information. For other types of information, legacy paper forms are currently used. Penalties can be applied where information is not provided on request.

### Gathering information between revaluations

5.12 There is currently no requirement for ratepayers to notify the VOA or their billing authority that they should be assessed for business rates or of property changes that may affect the tax due. This puts business rates at odds with other taxes.

5.13 Billing authorities are required to notify the VOA when they become aware of information requiring changes to the list, including the completion of new properties or structural alterations. However, authorities have no powers to inspect properties for business rates purposes so opportunities to identify changes that may affect RVs are limited.

5.14 Some stakeholders have argued that a requirement for ratepayers to report property changes to either the relevant billing authority or the VOA would enable the VOA to maintain a more accurate list. This could include changes to the property, changes of occupation, and changes of use.

5.15 The government is seeking views on how to improve the accuracy of rating lists and the provision of up to date lease information, and the trade-offs involved in this in terms of the duty on ratepayers to provide this information.

### Gathering information at revaluations

5.16 At revaluations, the RALD process is utilised on a much larger scale to collect information which underpins the updated valuations of rateable properties.

5.17 The information collected at revaluations, through the RALD process, could instead be provided to the VOA on an ongoing basis through the creation of a mandatory requirement on ratepayers to update their lease, rental and property details with the VOA. While this would require the more frequent provision of information and would be a significant operational change, it could ensure a more regular and complete flow of information to the VOA and could, in turn, facilitate a

quicker revaluation process as highlighted in section 4.1a. Stakeholders that have put forward the idea of lease registration have also suggested that this information should be made publicly available and that this could deliver significant wider benefits beyond the business rates system by, for example, improving the transparency of the property market in England; and improving information access for property, construction and insurance industries.

## **5.2 Maintaining the accuracy of ratings lists: Questions**

- 26 What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?
- 27 What are your views on making a register of commercial lease information publicly available?
- 28 What are your views on introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?

## 5.3 The billing process

**5.18** The billing and collection of business rates is the responsibility of the 314 billing authorities in England. Some properties such as nationwide utility networks are less suitable for listing in local rating lists and are instead listed on the 'central list'. MHCLG is responsible for the billing and collection of rates for these properties.

**5.19** A bill is generally issued for each individual property. Where a business occupies multiple properties in different locations, they will receive separate bills from each relevant billing authority and so make separate payments. The core content of a rates bill is specified in regulations but it is for billing authorities to determine the layout of and any additional information in their bills.<sup>18</sup>

**5.20** The business rates billing system reflects the fact that rates are a local tax and the billing process is devolved to billing authorities. This supports the operation of business rates retention and local decision making over the application of reliefs, but contrasts with other business taxes which are managed on a national basis by HMRC.

### Modernising the billing process

**5.21** The government has improved the process in recent years by, for example, moving explanatory notes for bills online and ending multi-year billing. The vast majority of billing authorities now make it possible to pay business rates online. Nevertheless, some ratepayers still raise concerns that bills are inconsistently formatted or unclear and that it isn't possible to manage bills in a single online location across multiple authorities.

**5.22** At Budget 2016 the government set out its long-term aim to 'transform business rates billing and collection' by linking billing authority systems to HMRC digital tax accounts. In 2019 legislation was passed enabling HMRC to undertake feasibility and scoping work for digitalising business rates (DBR).<sup>19</sup>

**5.23** A digital billing system could simplify existing processes. It would bring greater online functionality, and could reduce administrative burdens and free up time for businesses. Ratepayers, and potentially their agents, would be able to view and manage affairs in one place, receiving a single business rates bill for all properties. It could facilitate greater information sharing between billing authorities, including on the provision of reliefs, supporting improved compliance.

**5.24** Linking business rates data to other tax data could also facilitate a wider set of policy options, for example, eligibility for reliefs could be based on the characteristics of the business rather than just the property.

**5.25** The impacts of COVID-19 has demonstrated the need for a flexible, resilient and responsive tax system. The government would like to invite views from stakeholders on the future of billing and collection, and how DBR can best deliver benefits that address the concerns of ratepayers.

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<sup>18</sup> 'The Council Tax and Non-Domestic Rating (Demand Notices) (England) Regulations 2003', UK Statutory Instruments, 2003.

<sup>19</sup> 'The Non-Domestic Rating (Preparation for Digital Services) Act 2019', UK Public General Acts, 2019.

### 5.3 The billing process: Questions

- 29 How can the current billing process be improved? What changes would provide the most significant benefits to ratepayers through for example, cost or time savings?
- 30 What are your views on a centralised online system linked to other business taxes, enabling more joined-up data and management of billing across different locations? How could this best support ratepayers and billing authorities?
- 31 What sort of support would businesses and agents expect to receive when moving to a centralised online process, and from where would you expect to receive it?
- 32 What, if any, criteria should be applied in exempting certain ratepayers from online billing?

# Chapter 6

## Exploring alternatives to business rates

### Previous findings

6.1 The 2015 business rates review considered a move from a property-based business tax towards alternative tax bases. Although some respondents made the case for certain alternatives, including taxes on profits, turnover or local sales, there was no consensus, and respondents acknowledged that each of the alternatives involved practical, administrative, and economic challenges.

6.2 In the concluding summary of responses, the government reaffirmed its commitment to a recurrent tax on non-domestic property given its significant advantages, namely that they are:

- less distortive than some other taxes and less harmful to economic growth
- efficient to collect, with low risks from avoidance and evasion
- based on physical property, and so are more easily localised than other taxes
- a relatively stable and predictable tax, providing certainty for ratepayers and the Exchequer.

### Current context

6.3 Some stakeholders continue to advocate for alternative or complementary systems of taxation to business rates, as highlighted by the Treasury Select Committee's 2019 report.<sup>20</sup>

6.4 More recently, COVID-19 and associated public health measures have significantly affected how non-domestic property can be used. COVID-19 has also, in the near-term, increased the use of online shopping.<sup>21</sup> It is too soon to tell what the lasting impact of COVID-19 might be on the non-domestic property market.

6.5 The government will need to strike the right balance between continuing to raise the revenue necessary to fund essential public services and supporting the economic recovery. Therefore, the government is again seeking views on the case for the introduction of alternative taxes to either replace or complement the business rates system. Any move towards the introduction of a new tax would be a long-term proposition.

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<sup>20</sup> 'Impact of Business Rates on business inquiry', Treasury Select Committee, 2019.

<sup>21</sup> 'BRC-KPMG Retail Sales Monitor – April 2020', KPMG, 2020.



## Options

6.6 Stakeholders have previously proposed several alternative taxes or changes to existing taxes including an online sales tax, or increased rates of VAT or corporation tax. Each proposal has potentially significant challenges, some practical or administrative, and others more fundamental.

6.7 In light of the advantages of property taxes set out above, this call for evidence focuses on an alternative means of taxing non-residential property as a potential replacement for business rates and, due to the prevalence of concerns about online retail trends and divided public opinion, an online sales tax. Given that an online sales tax would be unlikely to raise revenue sufficient to replace business rates, we expect that any such tax would exist alongside business rates.

## Capital Values Tax (CVT)

6.8 International approaches to the taxation of non-residential land and property vary significantly.

6.9 Certain other tax jurisdictions, including California and Brazil, maintain recurrent taxes on property that are not based on rental values and paid by the occupant of a property. They are instead based on the combined capital value of non-domestic land and property, determined by either their purchase value or on the basis of regular revaluations.<sup>22</sup>

6.10 Taxes on capital values are often payable by the property owner. This change in the liability for the tax, from occupant to owner, is put forward as a significant benefit of a capital values tax in that this would ensure that the incidence of the tax falls directly on the property owner, rather than indirectly as with the business rates system.

6.11 As set out in section 4.1a, some stakeholders have been critical of the principle and the practice of taxing properties on the basis of their annual rental value. The government is seeking views on whether a recurrent property tax based on capital values would address these concerns, how such a tax could improve upon the agreed advantages of business rates, and any downsides.

6.12 Some stakeholders have expressed concern as to the availability of current capital values evidence to support valuations, as well as the challenge of defining who would be liable for a tax based on ownership, and ensuring compliance in cases where they are located outside the UK.

## Online Sales Tax

6.13 As a tax on the rental value of non-domestic property, some argue that the business rates system imposes an unreasonable burden on retail, where property is a major business input. Some commentators argue that the business rates system creates a distortion within the retail sector, favouring online retailers that can operate without the high-value properties that are a feature of more traditional retail. This has led to proposals that the government should levy a tax on companies

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<sup>22</sup> 'California Property Tax – an overview', California State Board of Equalization, 2018.

<sup>23</sup> 'Brazil: Property Taxes', PWC, 2020.

based on their online sales, and that this could be used to fund business rates reductions for retail properties.

**6.14** Other stakeholders, including many retailers, are opposed to such a tax.<sup>23</sup> As a fundamentally different tax to business rates, some raise concerns that an online sales tax would simply increase the costs for consumers of many regularly purchased items or make it harder for offline retailers to adapt to changing consumer habits and establish their own online presence. There is also a risk that an online sales tax could, subject to its scope, be distortive and incentivise the bundling together of certain online purchases of goods and services; any new tax should maintain purchasing neutrality and not incentivise this consumer behaviour.

**6.15** Others have highlighted that businesses occupying more property or more valuable property should expect to pay more under the normal workings of a property tax, and that an online sales tax would penalise more efficient or innovative businesses. These stakeholders have also argued that rates reductions for offline retail incentivise inefficient use of property and ultimately lead to higher rents, with the benefits accruing not to retailers or consumers but to landlords.

**6.16** Historical trends in online retail sales, and the more recent increases driven by COVID-19, suggests that while an online sales tax would not replace business rates, it could still provide a sustainable and meaningful revenue source for the government.

**6.17** While the scope of an online sales tax would need further consideration, it could be levied on the revenues that businesses generate from online sales to UK customers, and focused on sales in direct competition with those carried out through physical premises. Given divided opinion on this idea, the government is seeking evidence on the potential effects.

## **6 Exploring alternatives to business rates: Questions**

- 33 What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?
- 34 What evidence is there of the benefits that replacing business rates with a CVT would have in practice, for example, on business investment and growth?
- 35 How can land and property be valued fairly and efficiently under a CVT in England? What evidence is available to do this?
- 36 How would replacing business rates with a CVT affect the distribution of taxation?
- 37 What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the government ensure effective collection from and compliance by these taxpayers?
- 38 What lessons can be learned from other countries experiences with CVTs?

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<sup>23</sup> 'Government responds to Committee's 'High streets and town centres in 2030' report', Commons Select Committee, 2019.

- 39 What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?
- 40 What would be the benefits and risks of introducing an online sales tax?
- 41 Which services and products do stakeholders think should be subject to an online sales tax and what evidence is there to support this?
- 42 What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?
- 43 How could an online sales tax affect the distribution of taxation?

# Chapter 7

## Questions

### Questions where responses are invited by 18<sup>th</sup> September

#### 3.1 Reliefs

- 1 How well do current reliefs and exemptions deliver their intended outcomes and satisfy the principles of good tax design? What changes would you suggest to the system?
- 2 How can reliefs be targeted more effectively? How can reliefs and their administration be simplified?
- 3 What evidence is there on the capitalisation of business rates and business rates reliefs into rents over time? What does any evidence mean for the design of rates reliefs and business rates more broadly?
- 4 What role should local authorities have in determining business rates reliefs and exemptions? Should reliefs and exemptions be set by central government or set locally?
- 5 Are you aware of ratepayers misusing tax reliefs or other means to avoid paying their full business rates liability? What could be done to tackle this?

#### 3.2 The business rates multiplier

- 6 What are your views on how the business rates multiplier is set annually and at revaluations?
- 7 How could the multiplier be set in future to ensure the sustainability of public finances and support growth and productivity? What would the impact of any proposed changes be on the level of the multiplier and revenue from business rates over time?
- 8 How should the multiplier and any supplements relate to business rates reliefs? Should these be discrete, or should supplements fund specific reliefs?
- 9 What are your views on introducing additional multipliers that vary by geography, property value, or property type?

## Questions where responses are invited by 31<sup>st</sup> October

### 4.1 Valuations and transitional relief

- 10 What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?
- 11 What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?
- 12 What are your views on changing the valuation process or the information provided to the VOA, to enable more frequent revaluations?
- 13 What are your views on the relative importance of the period between the AVD and compilation of the list vs. more frequent revaluations?
- 14 What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?
- 15 If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?
- 16 What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

### 4.2 Plant and machinery and investment

- 17 What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?
- 18 Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?
- 19 What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?
- 20 What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?
- 21 How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?
- 22 How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?

## 5.1 Valuation transparency and appeals

- 23 What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?
- 24 What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?
- 25 What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?

## 5.2 Maintaining the accuracy of ratings lists

- 26 What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?
- 27 What are your views on making a register of commercial lease information publicly available?
- 28 What are your views on introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?

## 5.3 The billing process

- 29 How can the current billing process be improved? What changes would provide the most significant benefits to ratepayers through for example, cost or time savings?
- 30 What are your views on a centralised online system linked to other business taxes, enabling more joined-up data and management of billing across different locations? How could this best support ratepayers and billing authorities?
- 31 What sort of support would businesses and agents expect to receive when moving to a centralised online process, and from where would you expect to receive it?
- 32 What, if any, criteria should be applied in exempting certain ratepayers from online billing?

## 6 Exploring alternatives to business rates

- 33 What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?
- 34 What evidence is there of the benefits that replacing business rates with a CVT would have in practice, for example, on business investment and growth?
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- 36 How would replacing business rates with a CVT affect the distribution of taxation?
- 37 What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the government ensure effective collection from and compliance by these taxpayers?
- 38 What lessons can be learned from other countries experiences with CVTs?
- 39 What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?
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- 42 What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?
- 43 How could an online sales tax affect the distribution of taxation?

# Annex A

## Reliefs and exemptions

### Reliefs

- A.1 There are a number of permanent mandatory rate reliefs which are awarded by local authorities to ratepayers and properties which meet criteria defined in legislation. Depending upon when they were introduced the cost of these reliefs are either funded in full by central government or part funded by local government through the rates retention scheme.
- A.2 There are also a number of temporary rate reliefs set and funded by central government but delivered by local government using their own discretionary relief powers. These temporary reliefs are funded in full by the government.

### Principal reliefs

- **Charitable rate relief:** Intended to support charitable work. 80% relief available to properties occupied by charities and used wholly or mainly for charitable purposes and community amateur sports clubs. Claimed by 93,000 businesses and cost £1.93 billion in 2018-19, with billing authorities providing an additional £47 million.<sup>24</sup>
- **Empty property relief:** Intended to support landlords in the transitional period between occupancy. Empty buildings receive 100% relief for 3 months, with certain properties such as industrial premises (6 months) qualifying for extended relief. Claimed by 179,000 businesses in 2018-19, costing £996 million.<sup>25</sup> In addition, billing authorities may award empty property relief on the vacant part of partly unoccupied properties.
- **Retail discount:** Intended to support local businesses. Available to shops, pubs, cafes with an RV below £51,000. The government committed to increase the discount from a third to 50% in 2020-21 and extend eligibility to independent cinemas and grassroots music venues. In

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<sup>24</sup> 'Table 4: number of hereditaments in receipt of mandatory and discretionary rate relief as at 31 December, National non-domestic rates collected in England: forecast for 2019 to 2020', Ministry of Housing, Communities and Local Government, 2020.

'National non-domestic rates collected by councils in England: 2018 to 2019', Ministry of Housing, Communities and Local Government, 2019.

<sup>25</sup> 'Table 4: number of hereditaments in receipt of mandatory and discretionary rate relief as at 31 December, National non-domestic rates collected in England: forecast for 2019 to 2020', Ministry of Housing, Communities and Local Government, 2020.

'National non-domestic rates collected by councils in England: 2018 to 2019', Ministry of Housing, Communities and Local Government, 2019.



response to COVID-19, the government made unprecedented one-year expansions to the relief to include hospitality and leisure, and provide 100% relief to all eligible properties in these sectors. Forecast to cost ~£10 billion in 2020-21.

- **Rural rate relief:** Intended to support small rural businesses. 100% relief available to specific properties in rural areas with a population below 3,000.<sup>26</sup> 100% available for the only village shop or post office with an RV below £8,500 and the only public house or petrol station with an RV below £12,500. Claimed by 3,000 businesses costing £4 million in 2018-19.<sup>27</sup>
- **Small Business Rate Relief:** Intended to support small local businesses. 100% relief available on a single property with a RV of £12,000 or below. Properties between £12,000 and £15,000 RV benefit from a sliding taper. The relief is generally not available for ratepayers that occupy more than one property, subject to some specific exceptions. Claimed by 726,000 hereditaments costing £1.26 billion in 2018-19.<sup>28</sup>

## Other reliefs

- **Enterprise Zones:** Intended to encourage economic development in a specific area. 48 Enterprise Zones across England since 2012 can access up to 100% business rate discount, subject to state aid de minimis limits.
- **Fibre relief:** Intended to support new development. 100% business rates relief for new fibre infrastructure for a five-year period from 1 April 2017.
- **Hardship relief:** Intended to allow local authorities discretion to use local knowledge to support businesses in their area beyond pre-defined reliefs.
- **Local newspaper discount:** Intended to support the local newspaper industry. £1,500 discount for a local newspaper office space in place since April 2017. The government has extended the duration to March 2025.
- **Non-Profit Making Organisation Relief:** Intended to allow local authorities discretion to provide up to 100% relief for properties wholly or partly occupied by institutions or organisations for the purpose of non-profit making.
- **Nurseries Relief.** In response to COVID-19 the government announced a 100% relief for nurseries in the 2020 to 2021 business rates year.

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<sup>26</sup> 'Table 4: number of hereditaments in receipt of mandatory and discretionary rate relief as at 31 December, National non-domestic rates collected in England: forecast for 2019 to 2020', Ministry of Housing, Communities and Local Government, 2020.

<sup>27</sup> 'National non-domestic rates collected by councils in England: 2018 to 2019', Ministry of Housing, Communities and Local Government, 2019.

<sup>28</sup> 'Table 4: number of hereditaments in receipt of mandatory and discretionary rate relief as at 31 December, National non-domestic rates collected in England: forecast for 2019 to 2020', Ministry of Housing, Communities and Local Government, 2020.

'National non-domestic rates collected by councils in England: 2018 to 2019', Ministry of Housing, Communities and Local Government, 2019.

- **Public lavatories relief:** Intended to support increased availability of public lavatories. Budget 2018 announced a 100% business rates relief for standalone public lavatories in England. A bill to implement the relief from April 2020 is currently before Parliament.
- **Revaluation Discretionary Scheme Relief:** Billing authorities were given a pot of funds to devise their own schemes to support ratepayers at the revaluation.
- **Section 47 Discretionary Relief:** Under S.47 of the LGFA 1988, authorities have wide-ranging general powers to award discretionary relief to ratepayers in line with local priorities.
- **Stud Farms rateable value discount:** Stud farms are eligible for a discount of the first £4,200 of RV. For businesses with a RV of less than £18,000, the Small Business Rate Multiplier may apply.
- **Supporting Small Businesses Relief:** Supports those small businesses who, as a result of the 2017 revaluation, lost other rates reliefs leading to an increase in their bill.
- **Transitional Relief:** Supports businesses facing increases in bills due to the change in their RV at 2017 revaluation, funded by those seeing reductions (See part 4.1b above).

## Exemptions

A.3 In addition to reliefs, some non-domestic properties are “exempt” from business rates.<sup>29</sup> Exempt properties do not appear on the rating list, are not valued and, therefore, no data is available on the cost of exemption. Exemptions include, but are not limited to, agricultural land and buildings, public parks, buildings used for training or welfare of disabled people and buildings of public religious worship.

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<sup>29</sup> ‘Local Government Finance Act 1988’, UK Public General Acts, 1988.