# <u>Business Rates Consultation</u>
# <u>Part 1 response</u>

1. <u>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?</u>

The NFRN welcomed the government announcement made on 23rd March 2020 that occupied retail, leisure and hospitality properties will not pay business rates in the year 2020/21[1].

Ordinarily there are a number of reliefs available for business rate payers (empty property relief, charitable occupation, non-profit making bodies, rural rates relief, small rural business relief etc), however, these are administered by local authorities and are therefore not applied consistently across the country.

This can lead to businesses within one local council area being eligible, whilst other similar businesses (or different sites of the same business) in the area of a different council do not receive access to the same reliefs.

There are a number of reasons for this:

- Though the guidance provided by the government seems specific, it does not match up with the Special Category Descriptions that each local council has in their system regarding the category a business is placed [2]. This means that a Council can use discretion to allocate different coding to certain types of properties to prevent them claiming the relief. For example, in Hambleton Council, the dataset on their website shows that a number of pubs, and public halls are not currently getting the relief they could [3];
- Whilst some Councils like Merton apply the relief automatically [4], other councils like Birmingham Council expect their retailers to apply for the relief. In addition, whilst they publish the "guidance" from the Government that indicates there should be 100% relief for retailers from March 2020, the forms available indicate on their form that there would be a 50% discount if a business has an RV of less than £51,000 as opposed to the 100% [5] relief that was implemented in March 2020. This means that a business may not be aware they are due 100% relief if they don't read the "small print" which many businesses do not have the time to do as they want to concentrate on their "day" job; and
- Businesses can also face different barriers if applying for multiple sites in the areas of more than one local council.

We would suggest that the way that the reliefs are made available and the criteria used needs to be standardised. This would make it simpler to ensure that all businesses that are due reliefs receive them, and also ensure that the Government has an accurate understanding of the "costs" of this relief.

2. How can reliefs be targeted more effectively? How can reliefs and their administration be simplified?

The retail discount should be simple to apply, and yet as can be seen above it is not because of the diverse way local authorities approach the discretionary reliefs.

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[1] https://www.gov.uk/apply-for-business-rate-relief/retail-discount
[2] https://voaratinglists.blob.core.windows.net/html/documents/2017%20Compiled%20List%20and%20SMV%20Data%20Specification.pdf
[3] https://www.hambleton.gov.uk/downloads/file/4882/non-domestic_business_rates_dataset_updated_august_2019
[4] https://www.merton.gov.uk/business-and-consumers/business-rates/business-rates-discounts-and-relief/retail-discount
[5] https://www.birmingham.gov.uk/downloads/file/15260/retail_relief_application_form

This add to the complexity inherent in the design of the reliefs themselves.

For example, empty and partly occupied building relief is apportioned depending on the rateable value between empty and occupied parts of the building. More complex is rural rate relief that requires a business to meet criteria of being in a rural area with a population below 3,000 or is the only village shop or post office, with a rateable value of up to £8,500 or the only public house or petrol station, with a rateable value of up to £12,500[6].

Other business rates reliefs are even more complicated as eligibility is determined by rate relief thresholds, tapered relief and multipliers, with reliefs that a business would qualify for being lost if the business occupies multiple premises. For example, an independent retailer occupying premises with a rateable value below £12,000 will not pay any business rates. If this retailer is performing well and decides to open a second premises, even if its rateable value is also below £12,000, the retailer will no longer be eligible for any relief. Even with a 12 months grace period, during which they will still receive relief on the original property, this represents a disincentive for businesses to grow. Conversely, if a business wishes to become more energy efficient, for example by installing new energy-efficient lighting, this would cause business rates relief rise, but improvements to the property may also cause a rise in rateable value at the next valuation.

NFRN therefore believes it would be much simpler to just apply an allowance for businesses with a RV of under £51,000. This would save the considerable time and money spent in administering the current systems £3.5bn of reliefs, would reduce mistakes and appeals and the associate costs, and give businesses greater consistency and transparency in the business rates bills.

[6] https://www.gov.uk/apply-for-business-rate-relief/rural-rate-relief

**Table 2 : Cost of reliefs from national non-domestic rates : 2013-14 to 2017-18[R]**

| | Outturn | | | Forecast | | £ million |
|---|---|---|---|---|---|---|
| **MANDATORY RELIEFS** | 2013-14[(a)] | 2014-15 | 2015-16 | 2016-17 | | 2017-18[(b)] |
| **Small Business Rate Relief** | | | | | | |
| **In respect of current year** | | | | | | |
| Relief provided in year | 986 | 1,061 | 1,123 | 1,129 | \|\| | 1,537 |
| *of which: relief on existing properties where a 2nd property is occupied* | - | - | - | 2 | \|\| | 3 |
| Additional yield generated from the small business supplement | 447 | 543 | 646 | 648 | \|\| | 629 |
| Net cost of small business rate relief in respect of current year | 539 | 518 | 477 | 481 | \|\| | 908 |
| Net cost of small business rate relief in respect of previous years | 52 | 62 | 61 | - | | - |
| **Net cost of small business rate relief** | **591** | **580** | **539** | **481** | \|\| | **908** |
| **Other Mandatory reliefs** | | | | | | |
| **In respect of current year** | | | | | | |
| Charitable occupation | 1,391 | 1,476 | 1,558 | 1,575 | \|\| | 1,775 |
| Community Amateur Sports Clubs (CASCs) | 18 | 19 | 20 | 21 | \|\| | 19 |
| Rural rate relief | 6 | 6 | 6 | 6 | \|\| | 5 |
| Partially occupied hereditaments | 34 | 32 | 32 | 27 | \|\| | 21 |
| Empty premises | 988 | 947 | 935 | 838 | \|\| | 832 |
| Total other mandatory relief in respect of current year | 2,438 | 2,480 | 2,551 | 2,466 | \|\| | 2,652 |
| Other mandatory relief in respect of previous years | 14 | -9 | 42 | - | | - |
| Changes as a result of local estimates of growth or decline in mandatory relief | - | - | - | 86 | \|\| | 92 |
| **Total cost of other mandatory relief** | **2,452** | **2,471** | **2,594** | **2,552** | \|\| | **2,744** |
| **Total cost of mandatory relief** | **3,042** | **3,051** | **3,132** | **3,033** | \|\| | **3,652** |
| **DISCRETIONARY RELIEFS** | | | | | | |
| **In respect of current year** | | | | | | |
| Charitable occupation | 43 | 44 | 44 | 46 | \|\| | 51 |
| Non-profit making bodies | 35 | 36 | 38 | 36 | \|\| | 35 |
| Community Amateur Sports Clubs (CASCs) | 1 | 1 | 1 | 1 | \|\| | 1 |
| Rural rate relief | 3 | 3 | 3 | 3 | \|\| | 1 |
| Small rural businesses | 2 | 2 | 2 | 2 | \|\| | 1 |
| Other relief awarded under s47 | 8 | 12 | 13 | 19 | \|\| | 21 |
| Hardship relief | 3 | 3 | 2 | - | | - |
| Total discretionary relief in respect of current year | 95 | 100 | 104 | 106 | \|\| | 109 |
| Discretionary relief in respect of previous years | 1 | 2 | 4 | - | | - |
| **Discretionary reliefs funded through Section 31 grants** | | | | | | |
| "New Empty" properties | 1 | 4 | 7 | 8 | \|\| | 6 |
| "Long term empty" properties | - | 4 | 13 | 10 | \|\| | 4 |
| Retail relief | - | 196 | 296 | - | | - |
| Flooding relief | 3 | 1 | 7 | - | | - |
| Rural rate relief | - | - | - | - | | 5 |
| Local newspaper temporary relief | - | - | - | - | | 0 |
| In lieu of Transitional relief | - | - | 4 | 7 | | - |
| Total cost of discretionary reliefs funded through S31 grant | 4 | 205 | 328 | 25 | \|\| | 15 |
| Discretionary relief funded through S31 grants in respect of previous years | - | 5 | 10 | - | | - |
| Changes as a result of local estimates of growth or decline in discretionary relief | - | - | - | 6 | \|\| | 3 |
| **Total cost of discretionary relief** | **100** | **312** | **445** | **137** | \|\| | **128** |
| **TOTAL COST OF ALL RELIEFS** | **3,142** | **3,363** | **3,577** | **3,170** | \|\| | **3,780** |

Source: Outturn data are taken from auditor confirmed NNDR3 forms, forecast data are taken from NNDR1 forms
(a) Data for 2013-14 also include reliefs granted (or recouped for previous awards made in error) in respect of previous years
(b) Revaluation comes into effect 1st April 2017

This policy would get cross party support. The HCLG select committee report "High streets and town centres in 2030" remarked that they "recommend that the complexity surrounding rate reliefs and the administrative burden they create for retailers should be addressed and the suggestion we received for an allowance, similar to an income tax allowance, should be considered[7]**.**

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?

There is an argument that increased liability for business rates adds to the total overhead being borne by retailers which in turn makes it harder for tenants to sustain rental increase at review or lease renewal. Landlords and investors need to be more realistic as to the level of rents that are achievable especially in locations with high number of emptyunits. If lower market rents are agreed this would then set a new "tone of the list" that would then influence rateable values at revaluations, which should happen more frequently in the future.

[7] https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/1010/full-report.html#heading-15

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?

See question number 1.

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?

No

6. What are your views on how the business rates multiplier is set annually and at revaluations?

Business rates are calculated as the value of a property multiplied by a tax rate (called 'the multiplier'). The multiplier normally increases in line with inflation in the years between valuations such that revenues generated by the government also rise roughly in line with inflation (although in 2014 and 2015 the government capped the increase at 2%).

Across England as a whole, the value of non-domestic property is estimated to have risen by around an average of 11% between 2008 and 2015. If the same multiplier (i.e. tax rate) were kept, revaluation would therefore lead to overall business rates revenues rising. To an increase in the rates collected, the multiplier would have to be reduced by 11% to counter the higher valuations being us and to ensure that the revaluation itself does not cause a significant rise in business rates payable. It is therefore welcome that from 2022 the revaluations will occur every three years, lessening both the increase in the multiplier and property rateable values between valuations.

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?

The multiplier is just one part of the formula that creates a business rates bill and therefore Government revenue and it can be argued that it is actually the one part of this formula that seems straightforward. However, there is no transparency regarding how the rateable value of a property is formulated. The VOA is a centralised agency which means that one person could be valuing properties in Cornwall one day and London the next. This means that there is little account given to local circumstances that might affect the valuation. Also the Petrol Retailers Association & Car Wash Association, a membership organisation of independent fuel retailers and the self-regulating industry body for car washes, raised concerns that forecourt shops and convenience shops are assessed ising different valuation methodologies as business rates are levied according to turnover for shops on petrol forecourts whereas rates for convenience stores are assessed by square feet.

It therefore makes more sense to make local Councils individual valuation authorities, appointing an Assessor who would compile and maintain a Valuation Roll. In addition, for purposes of best practice, a board could be put in place in order to ensure there is a way of evaluating assessors and local processes. This could include an Executive Committee comprising the President, Vice President, Secretary that would each be elected for a period of two years. The greater transparency this would bring would mean that businesses would understand how their bill was reached, lowering costs as appeals would reduce.

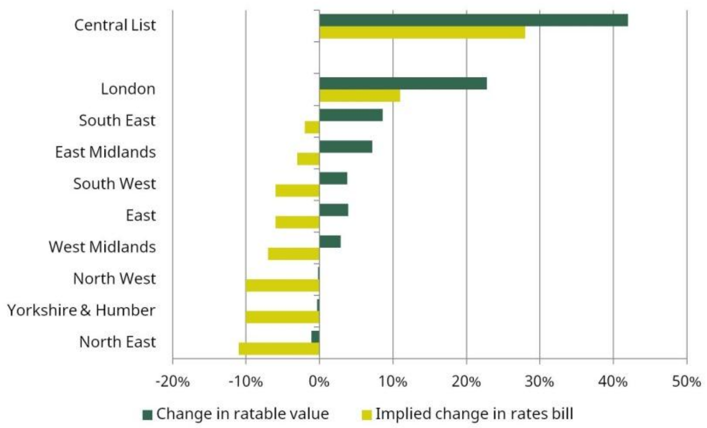
8. How should the multiplier and any supplements relate to business rates reliefs? Should these be discrete, or should supplements fund specific reliefs?

As in question 7, the focus should be more on increasing transparency around formula that is used to put together a business rates bill.

9. What are your views on introducing additional multipliers that vary by geography, property value, or property type?

Rateable values, and rates bills, are very different depending on where a business is within the UK. As can be seen below, bills are falling by 10% or more, on average, in the northern regions of England, but increasing by 11% in London, on average.

*Figure 1. Average change in rates bills due to revaluation, by region, before accounting for adjustment to multiplier to account for expected appeals* [8][9]




In today's terms, more than £700 million more business rates revenues would eventually be raised in London and around £1.2 billion less in the other regions of England (with an increase in revenues from the central list making up the missing £500 million). This shows that the UK government is becoming more and more dependent on revenues – from many other taxes like income tax, as well as business rates – from London to fund services across the country as a whole. At the same time there is growing pressure for devolution of more of London's revenues to the Greater London Authority – a difficult square to circle if these trends continue.

However, also as importantly the current business rates are entrenching regional unfairness as areas such as Redcar are still paying 20% more than their Rateable Value due to the gaps between revaluations [10]. The reality is that business rates therefore currently work against the economic cycle that makes the tax uniquely damaging For example, fuel duty, or corporation tax increase when business is booming in proportion to the amount of fuel you buy, or profit you make[11]. Therefore, business rates do not need a "quick fix", they need fundamental reform.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[8] https://www.ifs.org.uk/publications/8689
[9] Source: CLG Business Rates Revaluation Consultation and VOA rateable value data.

[10] https://www.bbc.co.uk/news/business-48194379
[11] https://www.cbi.org.uk/media-centre/articles/business-rates-system-is-entrenching-regional-inequalities-cbi-president/