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One voice for
retail warehouse &
superstore property

Business Rates Reform

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HM Treasury

Business Rates Review:
Call for Evidence

July 2020

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- The government announced at within the Budget that it would conduct a fundamental review of the business rates system in England

- 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.

- The call for evidence was published in July 2020

- Split into two tranches

- The government requested responses relating to the multiplier and reliefs sections of the review by 18th September along with any other areas of pressing concern!

- Responses to all other sections by 31st October.

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RATING SURVEYORS ASSOCIATION
Unity
founded 1909

18th September

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One voice for
retail warehouse &
superstore property

Over Rated

Making the case for business rates reform

CBI

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Some key high-level positions in respect of Tranche 1.

- **There is a rightful place in the UK's balanced basket of commercial taxes for a real estate tax based on a proportion of rental value.**

- **However, the level of taxation levied on individual ratepayers is too high as proportion of rental value. Government should take steps to materially reduce the multiplier.**

- **The system has become overcomplicated by the introduction of a high number of reliefs and exemptions. Government should take steps to pare back or materially simplify these reliefs and exemptions. [noting that there remains justification in short term emergency measures associated with COVID recovery]**

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The Questions in Tranche 1 - Reliefs

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?

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In England, there are currently 26 forms of business rates reliefs (that can be mandatory or discretionary) and 14 classes of exemption.

Since 2010 the number of available reliefs has increased more rapidly, from 17 to the current 26 reliefs, but until the 2017 revaluation the proportion of relief granted has stayed broadly the same at around 12.4% of local authority rates receipts.

Subsequently, the generosity of reliefs has increased, with reliefs granted averaging around 14.7% since 2017.

This increase has broadly resulted from more reliefs being granted to small businesses and through greater help for high street retail.

While reliefs have become more generous, this increase has only gone part of the way to offsetting the cumulative increase observed in the UBR. For example, in 2018/2019, the net business rates receipts (after reliefs) were 27% higher than those in 2010/2011, whilst gross receipts were 30% higher.

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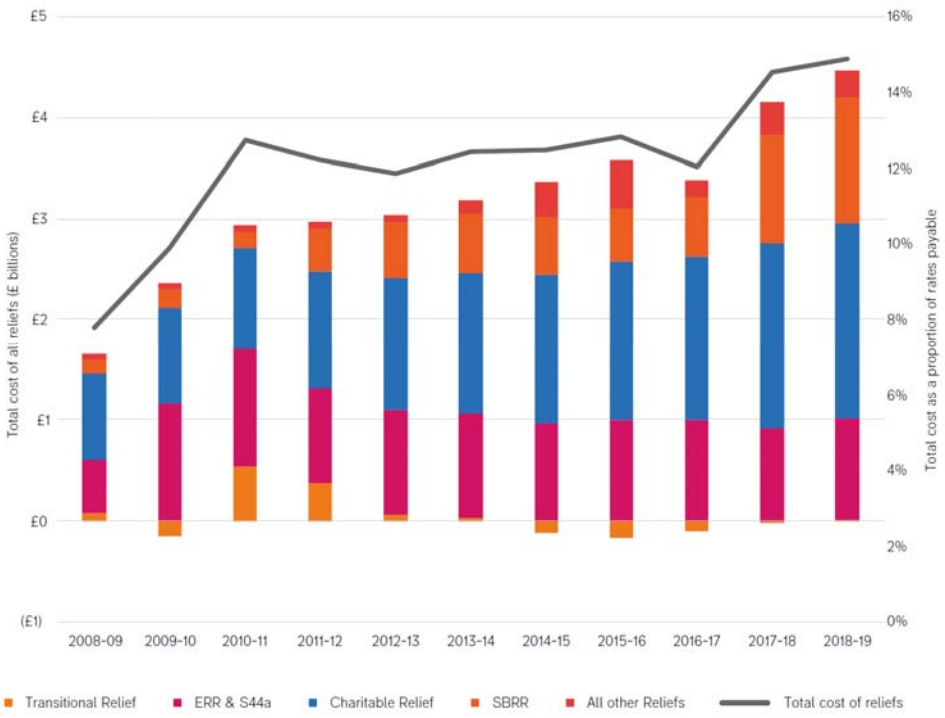
Reliefs should continue to be targeted to support the most vulnerable businesses, but reform would ensure they also continue to serve their intended purpose.

Total reliefs and total cost of reliefs as a % of total rates payable



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Some ideas on Reliefs

- All reliefs and exemptions should be subject to legislative authority via either primary or secondary legislation. It is generally accepted that Mandatory Reliefs are not subject to State Aid limits. For this reason that all reliefs are underpinned in primary or secondary legislation under mandatory powers.

- Would suggest no removal of mandatory relief but would recommend that any decision to award relief is entirely funded by MHCLG.

- Exempt properties are entered into rating lists together with a rateable value.

- Reliefs should be targeted only at appropriate sectors and should be reviewed on a regular basis.

- A change in small business rates relief to promote fairness.

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Some further ideas on Reliefs

- Wider reliefs, particularly those linked to rateable values, should be withdrawn and replaced by direct grants.

- The Rating (Empty Properties) Act 2007 should be revoked to reflect fairness.

- The eventual goal of Government should be the total removal of Transitional Relief schemes between rating lists. Downwards transition is removed immediately, and upwards transition is removed once the period between revaluations is shortened to 3 years or less. Therefore, ratepayers pay exactly what the statutory hypothesis requires them to pay, thus providing transparency and fairness.

- Recommend a review of the various classes of exemption to confirm whether they remain the most efficient and transparent way to relieve certain occupations.

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And finally……. on Reliefs

- Business rates should be kept as simple and relevant as possible with 3 yearly revaluations.

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The Questions in Tranche 1 - Multiplier

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?

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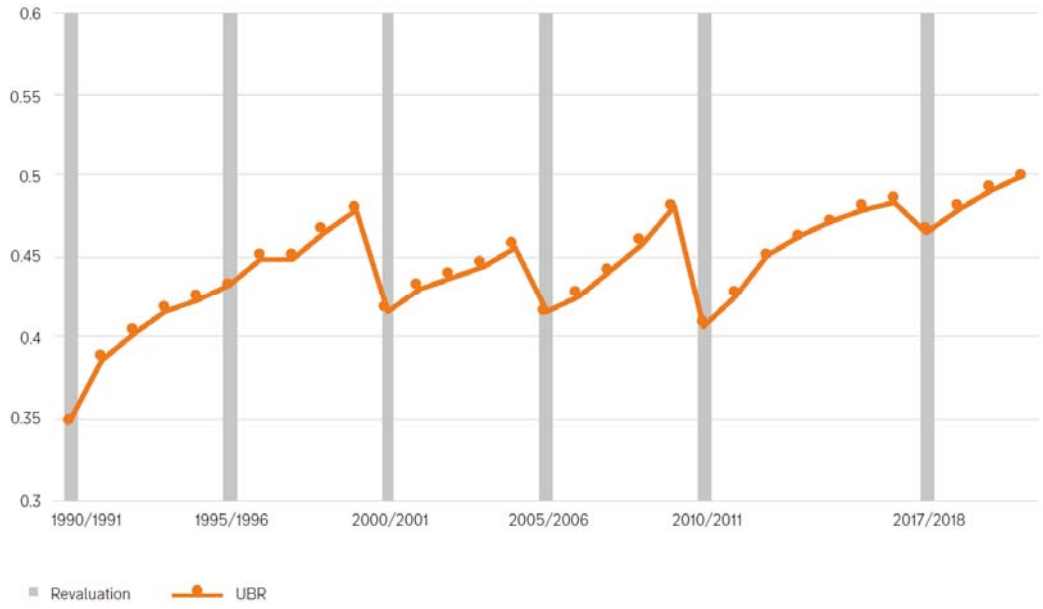
Since being introduced the UBR has increased by 44% (to 49.9p), rather than remaining at the intended rate of 34.8p

The UBR from 1990 to 2021



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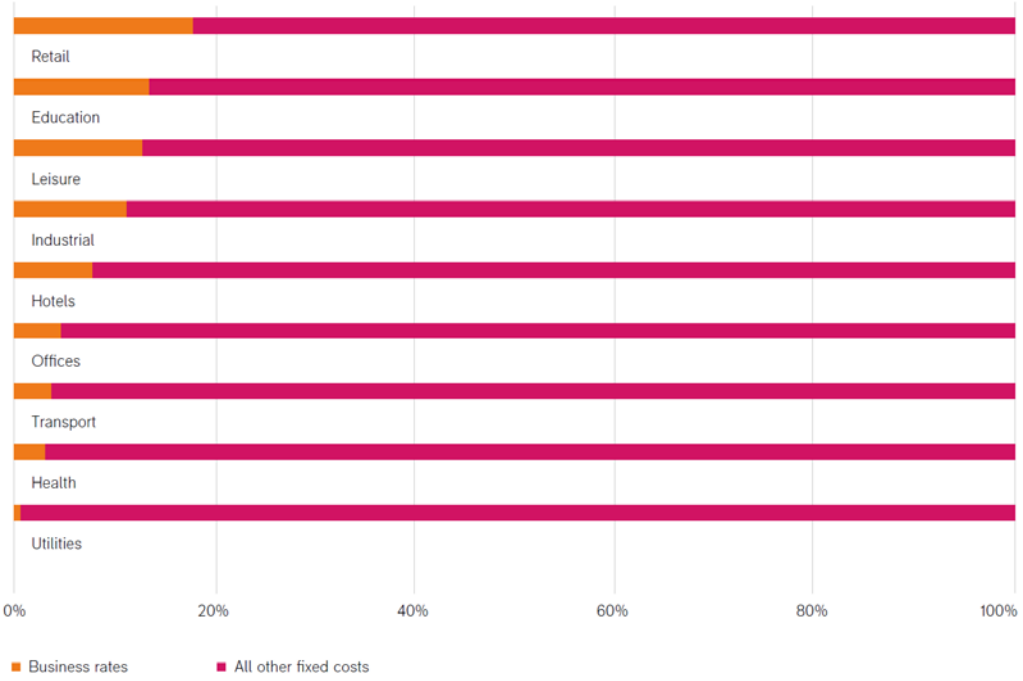
Switching from RPI to CPI has helped slow this growth, but if changed earlier this could have saved business £13 billion over nine years.

Business fixed costs by sector



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Some ideas on the Multiplier

The Multiplier Effect

- At revaluation, it is not appropriate for the multiplier to be strictly linked to the change in aggregate rateable value.
- Yes to inflationary increases during the currency of the revaluation **but only** where revaluations take place frequently.
- The multiplier should flex in order to strike the balance between the need to support local authority funding whilst having the ability to reflect the state of the wider economy.
- Advocate a single truly universal multiplier without regional variation or rateable value thresholds.
- The multiplier should not be shackled to the movement in aggregate rateable value.

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Some further ideas on the Multiplier

The Multiplier Effect

- The government should strive to reduce the multiplier significantly.
- Legislation should be introduced limiting the amount by which the multiplier can be changed from one year to the next.
- With the wholesale streamlining of reliefs and, the need for either the multiplier to increase or for supplements to be introduced in order to fund specific reliefs diminishes.
- Where reliefs are considered appropriate (e.g. upwards phasing) should they be funded separately and centrally. Is it appropriate to expect one group of ratepayers to subsidise another group especially where the relief may be politically motivated?

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And finally……. on the multiplier

- Supplements that might be used to provide funding for defined local or national capital projects (e.g. Crossrail) should be separately targeted, costed and ring-fenced. They should be applied clearly and transparently. They should be time limited.

- Ae BID levies not a local supplement? Should they be incorporated openly into the main demand rather than the current sperate bill.

- Finally I would suggest strongly against the introduction of additional multipliers that vary by geography, property value, or property type.

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31st October

- Traditionally known as All Hallows' Evening, Halloween falls on 31 October!

- The spookiest night of the year is nearly here, so I hope you've got your pumpkins carved and your costumes ready.....and of course your response to Tranche 2!

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Some key high-level positions in respect of Tranche 2.

- **More frequent revaluations will assist ratepayer.**
- **Although wide ranging topics cover in tranche 2 all are key to business and need to be carefully considered.**
- **Simply the message has to be……more reactive, more transparent, a lower burden of tax, whilst working in a "real time" basis.**

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The Questions in Tranche 2 – Valuations and Transitional Relief

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?

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Some ideas on Valuations and Transitional Relief

- More regular revaluations track economic changes and maintain fairness and relevance of the tax, e.g. 3 year revaluation intervals, 1 year antecedent valuation date.
- Need to look at resource of VOA and capital investment.
- To ensure the rating list more closely mirrors the performance of the property market and more regular revaluations to ensure fair distribution of the tax base.
- No to banding - Banding would dumb down the tax and remove accuracy and relevance of tax.
- Downwards transition needs to be removed and why should this be in place to fund upwards transition.

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The Questions in Tranche 2 – Plant & Machinery and Investment

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?

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Some ideas on Plant & Machinery and Investment

- P&M has not been rateable since 1925 unless it appears in the P&M Order as a named item. The last Wood Committee for P&M resulted in the present 2000 P&M Order. There is obvious scope for a 3rd Wood Committee to look at P&M in the 21st century as we have seen huge technology changes since the late 1990's

- Complete review of P&M to check still relevant and no disincentives around green agenda and Government targets.

- Government should allow exclusion of renewable energy to encourage more investment.

- Maybe link into property energy rating certificates?

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The Questions in Tranche 2 – Valuation transparency and appeals

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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Some ideas on Valuation transparency and appeals

- CCA has not worked well. It does not speed up the process.
- Check – unnecessary if ratepayers have to declare changes to their property. To correct current errors, ratepayers given one year to confirm all facts with no implications on liabilities for one year.
- Challenge – The appellant needs to know who is dealing with.
- Resolve the COVID-19 internal/external MCC 4/16 month to Challenge issue.
- In a fair and transparent tax systems – the evidence needs to be available to those who's assessment are affected by this evidence.

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The Questions in Tranche 2 – Maintaining the accuracy of Rating Lists

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?

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Some ideas on Maintaining the accuracy of Rating Lists

- A requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?.....In a fair and transparent system, it is right to declare this.

- Making a register of commercial lease information publicly available?.....I suggest occupiers fine with this but Landlords would hate it?

- Introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?.....sensible, but issues on how to resolve historic mistakes and a delay needed to ensure businesses can have accrual/financial plan.

- Concerned that ratepayers will not know whether certain changes are value significant.

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The Questions in Tranche 2 – The Billing Process

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?

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Some ideas on The Billing Process

- Simplify simplify simplify.
- This goes back to making the system simpler, the bills would then also be simpler.
- Technology available and systems need standardising. Government should support this for everyone's benefit.
- Where a ratepayer either disputes that they are liable, the amount of liability or entitlement to relief they have no formal mechanism for appeal. This need to change.
- A centralised system? A good idea? Should work like HMRC's online tax covering plethora of different taxes paid by one company.

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The Questions in Tranche 2 – Exploring alternatives to business rates

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?

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?

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Some ideas on Exploring alternatives to business rates

- What evidence is there of the benefits that replacing business rates with a CVT .....None!

- Clearly there are capital transactions – many based on investment portfolio decisions which in turn look at the returns available from renting the property to a tenant – but the capital valuations rarely tell you what the value is to the tenant from occupying the property to carry out their particular business.

- What other international alternative approaches to the taxation of non-residential land and property merit consideration for England? ..... Well an example one political part keen on site value rating as used in Australia. My view this is a terrible idea as the UK is demographically and physically very different from Australia.

- Any alternative would involve a massive exercise in data and system building.

- Politicians need to understand that business rates works and is not broken.

- As stated by AR in its response for Tranche 1 AR consider that a property based tax is both appropriate and desirable, but that the current level of business rates taxation is too high.

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Questions?

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Thank you

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It should be noted that Tranche 2 of the Business Rates Review has not yet been submitted and the content mention is an opinion only.

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