Business Rates Review:
Final Report

October 2021

HM Treasury

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Foreword

In March 2020, the government published the Terms of Reference for the Business Rates Review, setting out the review's objectives as:

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

In March 2021, the government published the Interim Report of the review. The Report communicated the various steps the government had taken and would take, to provide certainty and support to businesses, including a freeze to the business rates multiplier in 2021 to 2022, saving businesses in England £575 million over five years; and a further extension of the unprecedented business rates holiday for eligible retail, hospitality and leisure properties worth £6 billion.

This Final Report sets out the conclusions of the review, and announces several important changes and improvements, which represent fundamental reform to the system in England, including:

- a range of measures to reduce the burden of business rates in England, amounting to support worth £7 billion over the next five years; and
- more frequent revaluations – a priority stakeholder ask – and a clear plan to implement this.

The last 18 months have been an incredibly difficult period for many businesses. Over the course of the pandemic, the government has provided £352 billion of support to firms, including over £16 billion of business rates support in England. Though necessary, the measures taken in responding to the crisis have placed a significant strain on the public finances. It is in the light of this changed and challenging fiscal context that the decisions in this Report have been taken.

The review reaffirms the importance of rates and their central role in the tax system – a view widely supported by stakeholders. While the government plans to bring forward several substantive changes to improve the system, we see little value in ripping the system up and starting afresh as has been suggested by a small minority. However, we will continue to consider the arguments for and against an Online Sales Tax which, if introduced, would raise revenue to fund business rates reductions. We will consult on that shortly.

Finally, this document includes a roadmap for the coming years, setting out the anticipated milestones for implementation of the decisions set out in this Report.

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer

Introduction

Business rates are a tax that apply to all non-domestic properties in England, unless specifically exempt from rating. Liability broadly reflects the value of a property – its 'rateable value' (RV) – multiplied by the tax rate – the 'multiplier' – less any relevant reliefs. Business rates ("non-domestic rates") are devolved to Northern Ireland, Scotland and Wales.

This report concludes the government's review of the English business rates system. The review took place during a period of unprecedented economic disruption and uncertainty. The government is clear on the paramount need to put the public finances on a sustainable path and bring debt under control, and business rates will remain an essential component of the overall basket of business taxes. Yet even with the challenges we face on the public finances, the government has taken the decision to provide £7 billion of support for businesses over the next five years.

The conclusion of the review meets the government's commitments by:

- **Supporting the high street and reducing the burden of business rates** by providing a tax cut worth almost £1.7 billion for eligible Retail, Hospitality and Leisure properties, for 2022 to 2023. This amounts to support worth more than double the relief that was announced pre-COVID for the 2020 to 2021 financial year and includes additional businesses such as hotels, gyms and bowling alleys. Excluding COVID-19 reliefs, this relief is the biggest single year reduction to business rates in 30 years.
- **Cutting the burden of business rates for all businesses** by freezing the multiplier for 2022 to 2023, saving business in England £4.6 billion over the next five years.
- **Introducing a new relief to support investment in property improvements**, enabling occupying businesses to invest in expanding their properties and making them work better for customers and employees.
- **Introducing new measures to support green investment and the decarbonisation of non-domestic buildings.** This will provide exemptions for eligible green plant and machinery such as solar panels, wind turbines and battery storage used with renewables and electric vehicle charging points, as well as a 100% relief for low-carbon heat networks that have their own rates bill. Taken together with the improvement relief, this is expected to amount to a package worth almost £750 million over the next five years to support investment, deliver on stakeholder asks and support work to meet net zero.

- **Making the system fairer by moving to three-yearly revaluations from 2023** and bringing forward a technical consultation on the supporting changes later this year. This will ensure more frequent revaluations than countries including Scotland, Ireland and Chile, as well as bringing us in line with countries such as New Zealand and Japan.

- **Investing in business rates systems to ensure fundamental change** by providing £0.5 billion for the Valuation Office Agency (VOA) as part of the Spending Review, including funding for important changes to upgrade VOA IT infrastructure and digital capabilities. Additional funding is also being provided for the new reform measures supporting the move to a more frequent revaluations cycle.

- **Providing stability ahead of the 2023 revaluation** by extending Transitional Relief and the Supporting Small Business Scheme for 2022 to 2023 to protect small businesses from significant bill increases on the final year of the current revaluation cycle.

- **Considering the arguments for and against an Online Sales Tax which, if introduced, would raise revenue to fund business rate reductions.** A consultation will be published on an Online Sales Tax shortly.

The remainder of this report is set out as follows:

- **Chapter 1** describes the government's position on the role and importance of business rates.

- **Chapter 2** sets out the steps being taken to reduce the burden of business rates.

- **Chapter 3** details the changes being pursued to implement more frequent revaluations

- **Chapter 4** sets out the government's provisional roadmap for business rates changes over the coming years.

- **Annex A** contains a Summary of Responses to the More Frequent Revaluations consultation.

Chapter 1

The role of business rates

1.1 Previous reviews have identified four principal advantages of business rates over other types of business taxes. Business rates:

- raise revenue in a way which is less distortionary than some other taxes;
- are a relatively efficient tax to collect – tax avoidance and evasion are lower for property taxes than for other taxes;
- are a more practical and appropriate way to fund local authorities than, for example, taxes linked to earnings or profits; and
- are a relatively stable and predictable tax when compared with other taxes, which means ratepayers have more certainty from year to year about their tax liability, which can help with forward planning.

1.2 **This review has not found evidence to contradict these advantages.** Property taxes have frequently been found to be more economically efficient than other forms of taxation.[1] Business rates are the only part of the tax system which tax the ongoing use of the land on which commercial property sits, which is widely considered to be one of the most economically efficient and minimally distortive forms of taxation.

1.3 The most frequently cited criticism of business rates is that they unfairly tax businesses that use property intensively, and so create an unfairness for those business models that are more reliant on property compared to others. Most advanced economies have a business property tax as part of the business tax mix and **there is no clear consensus internationally on the ideal balance of taxation for businesses**.

1.4 Business rates raise over £25 billion a year for critical local services in England. Proposals have been made to replace business rates with alternative taxes, but the alternatives proposed would not be of a scale sufficient to replace business rates. Proposals have also been made to abolish business rates altogether without a clear and credible articulation of how the government would replace, or reduce expenditure equal to, the revenue forgone. Equally, shifting the burden to other parts of the tax system would require significant trade-offs, which could themselves be criticised as unfair – such as penalising growing businesses or those looking to adapt to new business models.

1.5 **The findings of this review confirm that business rates are a vital component of the business tax mix.** Against the current fiscal backdrop, and more generally, the

[1] Tax by design: The Mirrlees Review - The Taxation of Land and Property, Institute for Fiscal Studies, 2011; Tax policy for economic recovery and growth, OECD, 2009

government does not consider there to be merit in radical overhaul or abolition as has been suggested by a small minority of stakeholders. The government considers that a tax on the use and value of commercial property remains an important part of a balanced business tax system alongside taxes on profit and consumption.

1.6 **The government wants to preserve the benefits of business rates but will make changes to make their operation fairer and more effective for businesses.** Business rates are a tax predicated on an objectively fair distribution of the overall burden. The next chapters set out the action the government will take to provide support to ensure the distribution of business rates is reflective of economic conditions, and supportive of investment – including action to explore how an Online Sales Tax could help rebalance the system.

1.7 **The government is not proposing changing the nature of the tax, or the basis of valuation.** As set out in the Interim Report published in March 2021, alternative systems of valuation could incur significant drawbacks, and most stakeholders were opposed to these alternatives. In particular, stakeholders emphasised the importance of a high degree of specificity of valuations and expressed opposition to any alternative (such as a system of banding) that would reduce the bespoke nature of individual property valuations. A Capital Values Tax, as set out in the Interim Report, would incur a number of significant drawbacks and compromises, and the arguments advanced in favour of a Land Value Tax, (LVT) are outweighed by a lack of evidence of the benefits of an LVT, the significant practical challenges of introducing an LVT, and the probable adverse impacts in relatively high-value areas such as city centres.

Chapter 2

Reducing the burden of business rates

2.1 Business rates, after reliefs, typically raise around £25 billion in England each year. In 2021 to 2022, business rates baseline funding made up about a quarter of local government's total Core Spending Power. Business rates continue to be a vital source of funding for crucial local services that businesses and residents rely on, such as social care, waste collection, environmental and transport services, and other local priorities.

2.2 Some respondents to the Call for Evidence argued that the level of business rates was too high, and should be cut – e.g. to 35p, the level at which the universal business rate was introduced in 1990. Although the business rates multiplier has risen since 1990 in order to ensure that local authority funding from rates is maintained in real terms, **the revenue raised through the business rates system between 1990 and 2018 has fallen as a percentage of GDP, from 1.8% to 1.5%.**

2.3 Cutting the standard business rates multiplier to 35p in 2022 to 2023 would cost an estimated £9 billion annually, with costs rising every year to over £11 billion per year by 2030. The revenue forgone for a cut of this scale would be highly significant. For instance, £10 billion of revenue is equivalent to around 20% of 2021 to 2022 local government Core Spending Power. Raising the equivalent funding elsewhere in the tax system would require an increase of around 1.5 percentage points to the standard rate of VAT.

2.4 **However, the government recognises the unprecedented difficulties that COVID-19 has brought business. We will therefore take action to cut the burden of business rates for all businesses, by freezing the multiplier in England for 2022 to 2023.** This will mean a saving of £4.6 billion over the next five years, providing certainty and stability to business ahead of the 2023 revaluation.

2.5 The business rates review has also highlighted the case for several amendments to the existing legislation around the business rates multiplier that could provide greater certainty and flexibility on rate setting in the future, including making CPI the default measure of inflation used for uprating, and clarifying which businesses are eligible for the small business multiplier. The government will introduce these changes subject to a further technical consultation later this year.

Supporting retail and the high street

2.6 The past 18 months have been particularly challenging for the retail, hospitality, and leisure sectors, which have been affected by reduced footfall and restrictions on their ability to operate due to the pandemic. Following a 12-month business rates holiday for retail, hospitality and leisure in 2020 to 2021, and in recognition of the vital role that these businesses play on the high street, the government responded to the concerns raised by the sector in the Call for Evidence by providing a £6 billion extension to the relief in 2021 to 2022. In total, this support was worth £16 billion to businesses and meant that 400,000 retail, hospitality and leisure businesses paid no business rates for 15 months – an unprecedented package of support for these high street sectors.

2.7 In July, the Prime Minister launched a strategy for the high street to turn town centres into vibrant places to live, work, and visit. The strategy included plans to ensure derelict buildings are regenerated, streets cleaned up, and communities across the UK given the chance to own their local pubs, theatres, sports grounds, and corner shops. The launch also confirmed 15 Town Deals worth £335 million to revitalise towns across England.

2.8 While the economy has now reopened, the government recognises that ongoing difficulties as well as longer-term challenges continue to face these sectors. The high street is currently recovering from the impacts of COVID-19 while also going through a period of transition and evolving in response to changing consumer preferences. Some of these trends, such as the shift to online sales, have been accelerated by COVID-19.

2.9 Therefore, **the government is providing a new temporary relief worth almost £1.7 billion for eligible retail, hospitality, and leisure businesses in England to support local high streets as they adapt and recover for 2022 to 2023.** Eligible properties will receive 50% relief up to a cash cap of £110,000 per business. Over 350,000 retail, hospitality and leisure properties already pay no business rates due to Small Business Rates Relief. This new relief means up to 400,000 additional properties could also be eligible for a 50% cut in their rates bill in 2022 to 2023, subject to the cash cap. This relief will apply on top of the multiplier freeze, giving businesses breathing space until the next revaluation takes effect in 2023. Excluding COVID-19 reliefs, this relief is the biggest single year reduction to business rates in 30 years. Further guidance clarifying eligibility will be published later in the year.

2.10 The government is also delivering a significant package of investment at the Spending Review 2021 that will rejuvenate and restore local pride in high streets as part of the government's ongoing commitment to levelling up opportunities across the UK. SR21 announces £1.7 billion of the £4.8 billion UK-wide Levelling Up Fund that will invest in local infrastructure, including regeneration projects for high streets. It also announces the first 21 projects that will receive funding from the £150 million Community Ownership Fund, which will help communities across the UK protect and manage their most treasured assets. In addition, high streets across England will continue to benefit from the allocations of the £3.6 billion Towns Fund, supporting regeneration projects in 101 towns across England, with 45 places in the Northern Powerhouse and 30 in the Midlands Engine region.

2.11 From April 2023, the revaluation will adjust rateable values based on property values in April 2021, reflecting economic changes that have taken place since the last valuation date in April 2015. The case for and nature of any further support for these sectors will be considered in light of these outcomes. From this point onwards, as set out in further detail below, the government will implement three-yearly revaluations to ensure that the tax businesses pay is more responsive to economic changes.

2.12 There has been a high level of interest in the potential for an Online Sales Tax (OST), and respondents to the Call for Evidence identified it as an idea worthy of further examination. The government is aware of a wide range of views on this idea. No decisions on whether to proceed with an OST have yet been made. The government will continue to explore the arguments for and against an OST, and will consult further.

2.13 If introduced, the revenue raised from an OST would be used to reduce business rates for retailers with properties in England (and the block grants of the Devolved Administrations would be increased in the usual way). An OST levied at 1% or 2% would not raise sufficient revenue to be a feasible alternative to the business rates levied on retailers. However, it could help to rebalance the tax burden between bricks and mortar shops and online retail, which is typically less dependent on high-value property.

2.14 The evidence provided has not established that the business rates system is responsible for the shift to online or for broader problems on the high street. Other factors that may be relevant include changing consumer preferences, improvements in the choice and convenience available to online shoppers, and differences in the amount of stock that physical stores carry as compared with online retailers.

2.15 There are also arguments against an OST. Given the low margin nature of much online retail, it is expected that an OST would be passed on to consumers at a high rate, meaning that much of the burden of the new tax would be on households. Initial analysis suggests that this would be regressive.

2.16 Were an OST to be pursued, there are various design choices that would need to be made, involving potentially arbitrary decisions on the items that are taxable or not, such as:

- Digital products like ebooks, or online services that substitute for physical goods, like online newspapers and streaming services;
- Click-and-collect and online reservations, where transactions begin online but high street retailers retain a role;
- Sales agreed via channels such as email, instant messages, and telephone;
- Purchases made via web-based apps while consumers are in-store;
- Essentials, such as food and medicines, and children’s clothes.
- How it applies to small retailers.

2.17 The government will consider all of these issues further before making a decision on whether to proceed with an OST, and will publish a consultation shortly.

Supporting investment and improvement

2.18 Some stakeholders have argued that business rates can act as a disincentive to invest, as investment in property can lead to increases in rateable value and bills. However, the UK tax system is highly supportive of investment. The super-deduction is the biggest business tax cut in modern British history and offers 130% in-year tax relief for companies investing in qualifying new plant and machinery until March

2023. Businesses making non-qualifying investments are entitled to 100% in-year tax relief until the end of March 2023 under the Annual Investment Allowance, up to a £1 million level which covers over 99% of businesses' investments. The tax system also relieves expenditure on renovation or construction investment through the Structures & Buildings Allowance.

2.19 There is also little evidence of structural issues in property investment in the UK: the UK has the highest share of its investment (Gross Fixed Capital Formation) going to non-residential buildings of any member of the G7.

Helping ratepayers to invest in their property

2.20 Within the business rates system, the majority of plant and machinery (P&M) is not rateable – only those items that are listed in the regulations are rateable, and a 'tools of the trade' exemption applies to most items used in connection with an occupier's specific manufacturing operations or trade processes. Some items that are perceived to be 'process' plant are rateable, e.g. the pipelines used by utilities networks, blast furnaces used by the steel industry, and refineries used by oil and gas. These items are rateable because they are in the nature of or integral to a building or structure. Exempting these items would remove some of the largest structures in England from rating altogether, creating unfairness between ratepayers. The government is therefore not pursuing fundamental reform of the P&M system.

2.21 However, the government recognises that many businesses want to invest in their premises to make them more efficient, and work better for employees and customers - but could face an immediate increase in bills when they do. **The government will therefore introduce a 100% improvement relief, providing 12 months relief from higher bills for occupiers where eligible improvements to an existing property increase the rateable value.** This will support businesses to make improvements to their property such as adding more rooms to a hotel, expanding a factory, or installing CCTV or bike sheds. The government will consult on how to implement this relief, which will take effect in 2023 and be reviewed in 2028.

Additional steps to support net zero

2.22 The government also recognises specific concerns raised by ratepayers that businesses who install renewable energy for their own use can face significantly higher bills – while businesses producing renewable energy for use elsewhere get to benefit from the tools of the trade exemption. **The government will therefore introduce an exemption for eligible plant and machinery used in onsite renewable energy generation and storage, such as rooftop solar panels and battery storage used with renewables and electric vehicle charging points, from 2023 until 2035. A 100% relief will also be provided for eligible low-carbon heat networks that have their own rates bill.**

2.23 Together, this is expected to lead to almost £750 million of support for businesses, over the next five years, to make improvements and support the decarbonisation of buildings. The government will set out more detail on both changes in a technical consultation later this year, with changes to take effect in 2023.

Improving the reliefs system

2.24 As with any tax, the business rates system offers a range of reliefs designed to target support on the businesses most in need, to help ensure a fairer distribution of the tax and to reflect the needs of particular sectors. Moreover, it is important that reliefs are well-targeted and proportionate, to ensure that support is provided where it is needed most. Particularly in light of the impact of the pandemic on the UK's public finances, it is right that the reliefs on offer represent value for money. For example, Small Business Rates Relief already provides 100% relief from business rates to 700,000 properties – over one-third of the total in England – with an additional 121,000 receiving tapered relief through the scheme. It is not clear that further increasing the generosity of the relief would be a necessary or well-targeted use of public funds.

2.25 **This system of reliefs plays a vital role in ensuring the overall sustainability and fairness of the tax, and the government continues to keep the full set of reliefs under review to ensure that these remain fit for purpose. The government does not intend to remove any of the existing reliefs at this time.**

2.26 It is the government's view that modernisation and digitisation, as well as pursuing automatic application of relief where feasible, would be an effective way to support firms to navigate the system. At the Budget on 3 March 2021, the government announced an initial allocation of funding for Digitalising Business Rates (DBR). Alongside the VOA's Business Systems Transformation program, the DBR reform programme represents a major step towards fundamental modernisation of the system. Initial work is being undertaken to develop a versatile database for matching business rates data with central HMRC tax data, which will integrate into HMRC's Single Customer Account. This will allow better oversight of the rates system, more precise targeting of reliefs on the businesses most in need of support, and more effective compliance; and will allow businesses to more easily understand and monitor their tax liability.

2.27 HMRC is leading the work on DBR and is undertaking a program of discovery and design. **A further £31 million has been allocated for the development of DBR in the Spending Review.** The government expects to undertake further dedicated consultation with stakeholders next year, on both DBR and the billing system more widely.

2.28 Finally, it is also important that reliefs are not misused. Responses to the Call for Evidence highlighted that avoidance and evasion are important concerns for local government stakeholders, with responses identifying particular concerns around misuse of Empty Property Relief (EPR). The government is undertaking further detailed work, and will consult on measures next year.

Chapter 3

More frequent revaluations, and Transitional Relief

Revaluation frequency

3.1 For business rates, the distribution of the tax is set through revaluations, which periodically reassess and update individual liabilities to reflect changes in the rental market. This helps to ensure that, where shifts in economic activity have driven changes in underlying market values, these changes are fairly reflected in business rates liabilities.

3.2 There has been substantial economic change since 2015, even before the unprecedented shock of COVID-19. The long-term economic effects of COVID-19 remain uncertain, but pre-existing trends toward a more digital economy may have been accelerated by the crisis. The next revaluation will capture the change that has occurred and reallocate the tax burden accordingly. It is too early to tell what the result of that revaluation will be and the government will consider the impact, and any action required, in the Autumn of 2022 once revaluation outcomes are known.

3.3 **However, looking forward to future years, the government's view is that increasing the frequency of revaluations would represent a fundamental, meaningful improvement in the business rates system, and help to ensure greater distributional fairness.**

3.4 Currently, revaluations are scheduled to take place every 5 years. In practice, and due in part to the pandemic, these have taken place 7 and 6 years apart in recent lists.

3.5 In June, the government published a consultation setting out proposals to increase the frequency of revaluations in England to a 3-yearly cycle, alongside a range of reforms designed to support the deliverability of a faster cycle and provide a range of other benefits to ratepayers – such as greater transparency on valuations, greater valuation accuracy, and a faster appeals process. A wide range of respondents from different sectors and regions submitted input to the consultation, and these have been carefully considered. A Summary of Responses to June's consultation is annexed to this Report (Annex A).

3.6 **Further to the consultation, the government is announcing that we will implement a 3-yearly cycle for business rates revaluations, starting from the next revaluation in 2023. This means that the following revaluation will take place in 2026.** As described above, this faster cycle represents a fundamental improvement to the fairness of the system and the responsiveness of the system to economic changes.

3.7 Moving to three-yearly revaluations will ensure that the business rates system in England offers more frequent revaluations than jurisdictions including Scotland, Ireland, India, Chile, and South Africa, and brings it into line with other countries such as New Zealand, Japan, and several Canadian and Australian territories.

3.8 The government will bring forward legislation over the course of the next list to give effect to the new cycle.

3.9 As proposed in the summer consultation, and reflected in many responses, the government considers that there is a case to go further in the future – in particular, to pursue a shorter gap between the Antecedent Valuation Date (AVD) and compilation date. The government is also clear that the reforms designed to support a 3-yearly cycle, such as improving the flow of information between ratepayers and the VOA (described in further detail below), will be crucial to achieving further shortening of the AVD gap. In order to ensure that the proposed move to three-yearly revaluations is realised, **changes to shorten the AVD will not therefore be pursued at this stage, but remain an aspiration** once the new 3-yearly cycle and supporting changes are fully bedded in.

3.10 **We will also carefully consider the case for an annual revaluations cycle, in the longer-term.** As reflected in the Summary of Responses to the consultation (Annex 1), some respondents raised concerns about an annual cycle, such as the increased volatility of bills and potential impacts on valuation accuracy, and government recognises these concerns. Business rates are also a vital source of funding for local authorities, and ensuring a sufficient level of stability and certainty for local authorities is an important consideration in setting the revaluation frequency.

Implementing more frequent revaluations

3.11 The summer consultation set out a range of accompanying reforms to support the implementation of a 3-yearly cycle. Each cycle requires the VOA to conduct a full revaluation of the 2 million non-domestic properties in England, and to clear all Challenges to the list. All else being equal, compressing the same workload for a 5-year cycle into a 3-year window would risk the deliverability and quality of both revaluation and appeals work. This could mean ratepayers receiving less accurate bills, and could place additional pressure on the Check, Challenge, Appeal (CCA) system, potentially resulting in delays to clearance of cases and a significant backlog of appeals.

3.12 **The government has announced significant further resource for the Valuation Office Agency as part of the Spending Review**: £0.5 billion for the Valuation Office Agency (VOA) as part of the Spending Review, including funding for important changes to upgrade VOA IT infrastructure and digital capabilities. Additional funding is also being provided for the new reform measures supporting the move to a more frequent revaluations cycle.

3.13 However, reform to the system is needed to implement 3-yearly revaluations while supporting list accuracy. The government is therefore pursuing the following measures proposed in the consultation:

- **To help to improve list accuracy, ratepayers will be required to notify the VOA of changes to the occupier or physical property characteristics, and to provide rent and lease information to the VOA,** as well as trade information used for valuation. These changes, which are subject to further technical consultation, will help increase the quantity and quality of information provided to the VOA, ensuring more accurate valuations and, in turn, reducing the need for ratepayers to submit Challenges against their valuations. Reflecting the comments received during the earlier consultation, the technical consultation that will follow later this year will look to ensure that ratepayers can engage with these duties in a light touch and minimally burdensome way. These new duties will also bring business rates closer into line with other taxes, where self-reporting of changes affecting one's liability to the relevant tax authority is commonplace. These duties also enable the removal of the Check stage from the appeals process – see below. **These duties will be phased-in during the course of the 2023 lists.**

- To underpin the two new duties, **a fair and proportionate compliance regime** will be introduced, and will be rolled out after the introduction of the new duties. This will include penalties for non-compliance, including provision of false information as well as failure to comply; and a light-touch annual confirmation requirement. Initial entry to the appeals system and phase 2 of transparency (see below) will also be made conditional on compliance with the duties.

- To simplify and speed up the appeals process, **the Check stage will be removed from Check, Challenge, Appeal (CCA). Check will be removed from the outset of the 2026 list, and will remain in place for the 2023 list.** This phasing-in will allow time for the new duties, which replace the functionality of Check, to be introduced and for ratepayers to become familiar with them.

- To ensure that all Challenges can be cleared within the life of the list, and can be cleared more quickly and consistently in batches, **a 3-month window for submission of Challenges will be introduced.** New list entries commencing after the closure of the window would still have the opportunity to make a Challenge, as would new occupants of an existing property, subject to technical consultation. **The Challenge window will be introduced at the outset of the 2026 list, and will not be employed for the 2023 list.**

- From the 2026 list, **the end of each list will be set as the statutory deadline for the VOA to resolve Challenges** (except those arising from changes between revaluations), helping to ensure that Challenges are resolved within the life of each list, rather than overrunning into subsequent lists, as is currently common.

- To ensure that the Material Changes of Circumstances (MCC) provision remains fit for purpose, and that usage remains within the original intentions of the provision, **the government will legislate to clarify that factors arising from legislation, regulations, licensing changes, or guidance are not in scope for MCC claims.** Reflecting responses to the consultation, the government will not restrict MCC claims any more widely than the above areas at this time. This approach will provide forward-looking clarity and certainty for ratepayers regarding the impact of legislative and regulatory changes.

- To provide greater transparency on valuations, meeting an important stakeholder ask, the government will introduce **increased transparency in two phases** (timings are indicative, and subject to change):
  - Phase 1: Release of improved guidance covering rating principles and class-specific valuation approach, ensuring guidance is readily accessible and ratepayer-friendly. Phase 1 is expected to be implemented before the 2023 list.
  - Phase 2: Making available fuller analysis of rental evidence used to set an RV for a specific property, such as analysed price per m^2, and an explanation of how the evidence has been used to arrive at the RV. This would be accessible on request to the VOA, and ratepayers would be able to submit this request separately from and prior to the Challenge process. Phase 2 is expected to be implemented for the 2026 list.

3.14 The following measures from the consultation will not be taken forward at this time:

- **Fees for Challenges and transparency requests.** This decision has been taken to reflect concerns expressed in the consultation about the fairness of charging fees for these services, and the potential impact on small businesses.
- **Further restrictions to appeal rights**, including restricting the ability to make appeals to the ratepayer, or an agent of the ratepayer, only. This decision has been taken to reflect concerns expressed in the consultation about the impact on third parties such as landlords making fair use of this ability, and the corresponding impact on business models such as shared occupancy buildings. The government recognises that concerns may still persist among ratepayers about the scope for third party challenges against their liability, and these concerns were raised though the Call for Evidence on the review. We will therefore continue to explore alternative options to address this concern.
- **Further restrictions to eligibility criteria for MCC claims.** As noted above, only those factors relating to legislative and regulatory factors will be removed from eligibility. This approach avoids placing further restrictions on appeals rights, ensuring that ratepayers retain broad and substantial grounds for appeal; however, it does mean that the VOA will be dealing with a higher volume of cases as a result, which may affect overall timeliness of Challenges clearances to an extent.

3.15 The government expects to publish a further technical consultation on these new measures before the end of the year, to engage further with interested stakeholders on the details of the new duties, ahead of bringing forward legislation.

Transitional Relief

3.16 The government is currently required by the Local Government Finance Act (LGFA) to introduce transitional arrangements at each revaluation to support businesses to adjust to their new bills. That legislation also requires the Secretary of

State to have regard to the object of securing (so far as practicable) that the aggregate amount of business rates collected is unaffected by the transitional relief scheme.

3.17 Transitional Relief (TR) is a significant part of the business rates system as it can help businesses to adjust to changes in their liability arising from the revaluation, but the requirement is unique to business rates in England. Businesses located elsewhere in the UK see their bills change immediately, up or down, following a revaluation, and many stakeholders have asked for reforms to achieve the same effect in England.

3.18 TR has provided support to businesses during the pandemic, by mitigating the impact of revaluations on business cashflow during this critical period. The Supporting Small Business scheme (SSB) has also supported businesses who have lost eligibility for Small Business Rates Relief (SBRR) or Rural Rate Relief (RRR) as a result of the last revaluation increasing their rateable value above the thresholds for those reliefs. The current TR and SSB schemes were both designed to last until the next revaluation but, due to the decision to delay the revaluation until 2023 in response to the pandemic, there is a single year gap in support.

3.19 The government will therefore extend TR for small and medium businesses, and the SSB scheme, for 1 year, restricting bill increases to 15% for small properties (up to £20,000 RV) and 25% for medium properties (below £100,000 RV), subject to subsidy control limits.

3.20 This will help those businesses most likely to see the largest relative increases in their rates bills and provide crucial support to small and medium size enterprises as the economy recovers.

3.21 However, the government also recognises concerns that gaps between revaluations mean that businesses bills are often based on rateable values that they might consider out of date, and that transitional relief arrangements – specifically the 'caps' on the rate at which bills can move up or down – can exacerbate this, often preventing bills from ever accurately reflecting actual property values. While these downward caps are necessary to ensure that support for those facing bill increases can be provided, stakeholders felt this can distort the distribution of the rates burden.

3.22 The government agrees that a shorter revaluation cycle has significant impacts on the need for and design of the transitional relief scheme, and **the government will therefore bring forward a consultation on transitional relief in 2022, ahead of the next revaluation, to inform the design of the next scheme, which will apply after the 2023 revaluation.** The next TR scheme will then be confirmed in Autumn 2022, ahead of the next revaluation.

Chapter 4

Business rates roadmap

4.1 The conclusions set out in this report detail the government's proposed changes across the coming years. The table below sets out when these changes are currently expected to be made. These timings are subject to change.

Figure 4.1: Business rates roadmap

YEAR 1 - 2021-22

Technical consultation - More frequent revaluations, multiplier administrative changes, and investment and improvement reliefs

Consultation - Online Sales Tax

YEAR 2- 2022-23

Multiplier - Frozen at '21-'22 level

Retail relief - set at 50%

Transitional relief - '21-'22 scheme extended for single year

Supporting small Business Scheme - '21-'22 scheme extended for single year

More frequent revaluations - legislation introduced

Further consultation - Digitalising Business Rates, avoidance & evasion and Transitional Relief

April 2023 – March 2026

Revaluation (April 2021 AVD)

Rollout – Improvement relief, green P&M support, phase 1 transparency and new duties

2026-27 onwards

Revaluation (April 2024 AVD)

Rollout - Phase 2 transparency, phase 1 Digitalising Business Rates and Check, Challenge and Appeal changes

Annex A

More frequent revaluations - Summary of Responses

A.1 195 responses were received to the June consultation on More Frequent Revaluations, from a wide range of sectors. The government is grateful to all those who shared their views.

A.2 The following section summarises the most commonly expressed views in response to each of the consultation questions.

Q1 - Does the proposed package of measures represent a fair and balanced trade-off for ratepayers between new benefits and new requirements?

A.3 Respondents expressed mixed views in response to this question. Some parts of the package received wide acceptance from stakeholders, while others were more mixed or negative.

A.4 Local Authorities and Professional Tax Bodies were the most likely sectors to agree that the package was a fair and balanced trade off. Ratings agents were the most likely to be opposed.

A.5 Removal of the Check stage to simplify the appeal process was welcomed.

A.6 Some stakeholders expressed concern that MCCs would be removed altogether, and felt that these are an important provision to ensure fair compensation for ratepayers mid list. As described above, the government is not proposing to remove MCCs altogether, and only to exclude those factors deriving from legislative or regulatory changes.

A.7 Some respondents felt that the 3 month Challenge window was unfair, and did not leave enough time for ratings agents to submit a high volume of Challenges. However, a number of larger stakeholders were supportive, and expressed the view that that the benefit derived from a more accurate list, more frequent revaluations, and a more efficient appeals system allowing more timely resolution of Challenges, was worth accepting a shortened appeal window. Stakeholders also noted that the 'draft list' stage provides an additional 3 months for consideration ahead of list compilation.

A.8 Some respondents were critical of the choice to set the end of each list as the statutory deadline for resolution of Challenges. However, others recognised the merit in this approach, particularly in seeking to ensure that Challenges do not overrun list-on-list, as is often the case currently.

A.9 In general, professional bodies and Local Authorities supported the new duties on ratepayers (Duty to Notify and Mandation of Information), which will ensure a more complete flow of information to the VOA and help to bring business rates into line with other taxes. These respondents also recognised the need for an effective compliance regime to underpin the new duties. Agents and retailers were mixed on the duties, with many expressing concern that they would be a significant burden to ratepayers, particularly those with large portfolios.

A.10 The following measures were widely opposed, and, as noted above, will not be taken forward:

- *Restricting appeal rights to ratepayers only*. Stakeholders expressed concern that this would unfairly constrain business models such as shared office spaces which typically rely on landlord-submitted Challenges.
- *Fees for Challenges and transparency requests*. These were viewed as unfair and unnecessary.

Q2 - What steps could be taken to support ratepayers to comply with the new duties?

A.11 Respondents stressed the importance of a reliable and user-friendly online portal that is fit for purpose, and clear guidance and definitions around information to be provided and what types of changes need to be notified to VOA.

A.12 A number of other practical suggestions were made, which will be taken into account.

Q3 - Are you supportive of the proposed approach to transparency?

A.13 Respondents were universally supportive of a move to offer greater transparency. This would build trust in valuations and improve fairness for ratepayers.

A.14 As noted, businesses and agents were commonly opposed to fees for transparency on the grounds of fairness.

A.15 Many respondents expressed the view that 'Phase 1' (improved guidance) is not a highly meaningful improvement, and called for 'Phase 2' to be introduced as early as possible, and in advance of the next list.

Q4 and 5 - What steps could the government, stakeholders, or industry take to support a smooth move to a 3-yearly cycle?

A.16 Respondents stressed the need for engagement on implementation, clarity on proposed changes, and detail setting out timings for implementation of the package. Several called for a timeline/roadmap.

A.17 Those that shared a view on the 'phased' approach were split. Some felt that this is an appropriate way to introduce the new reforms to allow time for adjustment and familiarisation, while others expressed the view that measures should be introduced sooner and all at once for maximum coherence and clarity.

A.18 A high number of respondents stressed the need for the government to fully engage in the design and implementation of any new systems and learn lessons from CCA, for example through user trials and feedback on the new portals.

Q6 and 7 – Do you agree that moving to 3-yearly should be the priority? Would you support a shorter AVD gap/revaluation cycle in the future?

A.19 An overwhelming majority of respondents were supportive of moving to a more frequent revaluations cycle.

A.20 Respondents had mixed views on the most desirable frequency, but a majority were supportive of 3-yearly. Around two-thirds agreed that 3-yearly should be the priority, while a quarter thought annual should be the priority (a small number expressed no preference).

A.21 A low number, such as those in the utilities sector, expressed support for retaining a 5-yearly cycle, for example to align with industry regulatory cycles, but acknowledged the government's rationale for a faster cycle. Some felt that other policy priorities (such as the multiplier or transitional relief) were more significant concerns for businesses, and therefore expressed the view that more frequent revaluations should not be a priority over these issues.

A.22 Those that were supportive of annual revaluations commonly noted that significant market shifts can occur in 5 years, and thus made the case that a 3-yearly cycle (with a 2-year AVD) is not sufficiently frequent to capture changes in due time. These respondents felt that an annual cycle would respond more quickly to fluctuating market and economic trends, ensuring that business rates are more responsive to market rents. Most saw this as a longer-term goal, though a small number called for an immediate move to annual.

A.23 Those that were opposed to annual revaluations widely felt that this could produce more volatility and uncertainty for LAs and ratepayers, restricting the ability of both groups to plan ahead with certainty. Many were also conscious of the deliverability challenges that an annual cycle would pose for the VOA, and recognised that this is not currently practical. Doing 3-yearly first allows time to get the new systems right, adjust in a phased way, and then evaluate impacts before taking a decision on going further. Respondents were also clear that they would *not* support a move to annual revaluations if this required using less accurate or precise valuations, such as the use of banding or linked indices.

A.24 In addition, several respondents made the point that, under most lease agreements in the current market, rent reviews take place approximately every 3 years, with many using even longer intervals. This implies that an annual cycle is unnecessary to accurately capture market movements in the aggregate.

A.25 There was widespread support for a shorter AVD gap (i.e. a 1-year gap), which would reduce the time lag between real world changes and updated valuations, and many respondents emphasised that this is a higher priority than annual revaluations. Many noted that Scotland has committed to adopt a 1-year AVD.

A.26 A small number of respondents were opposed to a shorter AVD, on the grounds that it could reduce the quality of evidence used to derive valuations. Local government respondents also expressed some concern that it could shorten the draft list period, which would leave less time for forward planning.