HM Treasury

Business rates review:

terms of reference and discussion paper

March 2015

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Foreword

The government is conducting a wide-ranging review of business rates in response to concerns from many business ratepayers that business rates are in need of reform to make them fit for purpose in a 21st century economy.

During this Parliament, the government has taken action to reduce the burden of business rates on all sectors, with particular support targeted at small businesses and the retail sector. It is also working with businesses and local authorities to bring forward practical changes to the administration of business rates in response to businesses' calls for clearer billing, better sharing of information and a more efficient appeals system.

The tax system, including business rates, should provide stable and sustainable revenues to fund public services in the least distortive way. The debate about the future of business rates centres on whether the tax is sustainable, fairly targeted and sufficiently flexible to respond to both changing patterns of property usage and conditions in the wider economy. The government wants to ensure the widest possible debate about how the system can be improved to meet these concerns.

Recent changes allowing local authorities to retain a percentage of the business rates they collect have concentrated thoughts on whether the system could better incentivise investment and growth. Some have put forward suggestions for changing the way that business rates raise revenue, ranging from major changes (such as basing them on business turnover) to adaptations of the existing system (such as changing the frequency of revaluations).

Others have highlighted the value of keeping business rates broadly as they are to retain stability and predictability which allows both businesses and local authorities to make decisions with improved certainty and confidence.

So while there is agreement across business sectors that the business rates system is in need of reform, there is no clear consensus on how best to achieve this. This is why we want to take the opportunity to undertake a thorough, wide-ranging and robust examination of the existing business rates system and to explore options for future reform.

This document confirms the terms of reference for this review and provides further context for its aims and core themes. This is the biggest review of business rates in a generation and we would urge businesses, local communities and others to get involved. We want to hear views from a wide range of stakeholders to ensure that the review's outcomes are informed by a broad and open discussion and that they balance the concerns of central government, local government and business ratepayers. The review will report its findings by Budget 2016.

George Osborne
Chancellor of the Exchequer

Danny Alexander
Chief Secretary to the Treasury

1 Introduction

The business rates system and how it has evolved

1.1 Business rates are a tax based on property values and help pay for public services. They have been devolved to Scotland and Northern Ireland and will be fully devolved to Wales from April 2015. Business rates are charged on all non-domestic properties (e.g. shops, offices and factories) that do not qualify for an exemption and are normally payable by occupiers of premises, rather than owners. However, where properties are empty, the property owner may be liable for business rates.

1.2 Business rates are calculated according to a property's 'rateable value' which is set by the Valuation Office Agency for each non-domestic property in England. Rateable value is an amount equal to the annual rent for which it is estimated a property might be let at a set date. The valuation date is currently set at 2 years before the revaluation comes into effect.

1.3 The origins of the current business rates system can be traced back over 400 years to the Elizabethan Poor Law Act of 1601. The predecessor to the current business rates system was the general rate, which was a local tax based on rental values that applied to both domestic and non-domestic property. Tax rates were set by individual local authorities and so the amount of tax paid by businesses on properties of equal rental value varied across the country.

1.4 The current non-domestic rates system – commonly known as business rates – has been in place since 1990. This saw the introduction of the uniform business rate, set by central government. All business rates income collected by councils formed a single, national pot, which was then distributed by central government in the form of formula grant.

1.5 In recent years, the government has taken steps to increase the incentive for local authorities and businesses to work together to make the right business decision for their area.

1.6 In April 2013, the government introduced the business rates retention scheme. Under the scheme, local government keeps 50% of all business rates growth, giving councils an incentive to go for growth and encourage enterprise and job creation. If economic activity increases the amount and quality of commercial property then the total amount of money raised from business rates will grow too. Councils also have greater flexibility to pool their business rates to encourage growth across their areas.

1.7 As part of the government's Enterprise Zone (EZ) scheme, local authorities have also been given 2 incentives which they can offer to companies locating in the zone in relation to business rates. Firstly, local authorities are able to offer businesses in the EZ a rates discount up to the state aid de minimis limits over a 5 year period.[1] In addition, EZs are able to retain 100% of business rate growth within the zone for 25 years to encourage borrowing and reinvestment in the local economy.

1.8 Business rates are fully devolved to Scotland and Northern Ireland, and will be fully devolved to Wales from April 2015. Under full devolution, all 3 devolved administrations will retain the full revenue raised from business rates within their jurisdictions; be able to determine their own business rates system including setting tax rates; and bear the risk of revenues rising or falling. In Northern Ireland, for example, business rates are determined according to both a regional rate, set by the Northern Ireland Executive, and a district rate, set by each district council.

[1] The maximum available discount is £50,000 a year up to a total of £275,000. To qualify, businesses need to be signed up to the EZ by April 2018.

Facts on business rates

1.9 Business rates are forecast to raise £22.4 billion in England in 2014-15 from around 1.8 million non-domestic properties. The tables below show how business rate revenues and the number of properties paying them have changed in recent years.

Table 1.A: Number of properties and revenues raised in England

Year	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
Revenue (billions)	15.6	15.6	15.5	15.9	17.1	17.4	19.1	19.4	19.3	21.0	21.8
Properties (thousands)	1,633	1,637	1,643	1,645	1,660	1,676	1,683	1,694	1,714	1,738	1,754

Source: Valuation Office Agency and Department for Communities and Local Government

Changes to use of property

1.10 During the period that the business rates system has operated, major changes have taken place to the way that people in the UK work, live and shop. This, in turn, has contributed to changing patterns in the occupation of non-domestic property, on which business rates are payable. For example, the period has seen an increase in the levels of working from home[2] and in flexible working practices, such as hot desking, Wi-Fi Internet, smartphones and cloud computing, all of which have affected the amount of space required by businesses, particularly office space.

1.11 People have also changed the way they shop. Internet shopping has increased in popularity, with 82% of internet users making an online purchase in the last 12 months,[3] the highest in the EU. Before the rise of internet shopping, out of town shopping centres and supermarkets also changed the way retailers reach their customers. Recent years have seen a decrease in demand for high street shopping and an increase in demand for online retail services which combine both 'bricks-and-mortar' and online services. The banking sector has also adapted to a move towards increased mobile and internet banking, with 50% of adults having used internet banking in 2013, up from 30% in 2007.[4]

1.12 These patterns of property usage suggest that the business rates tax base is changing. Some business groups warn that this trend calls into question the fairness of business rates as a tax paid by businesses from all sectors. Although rental values will change to reflect the level of demand for property, the burden of business rates may have shifted between different sectors of the economy and more towards those who are more reliant upon property use as a means of generating business. The government wants to understand better what these changes in property use mean for the future of business rates.

Reforms to the business tax system

1.13 The government is aware that businesses take decisions about where to start, grow and invest based on a wide range of factors, including the competiveness of the tax system as a whole. That is why the government is committed to creating the most competitive tax regime in the G20. To support investment and growth, for example, the government has cut the main rate of corporation tax (CT) from 28% to 21%. In April it will fall further, to 20%, giving the UK the

[2] 'Characteristics of Home Workers, 2014', ONS, June 2014: www.ons.gov.uk/ons/dcp171776_365592.pdf. ONS figures reveal that, of the 30.2 million people in work in January to March 2014, 4.2 million were home workers, a rate of 13.9%. This represents an increase of 1.3 million since 1998.

[3] 'Internet Access – Households and Individuals, 2013', ONS, August 2013: www.ons.gov.uk/ons/dcp171778_322713.pdf

[4] 'Internet Access – Households and Individuals, 2013', ONS, August 2013: www.ons.gov.uk/ons/dcp171778_322713.pdf

joint lowest rate of CT in the G20. The small profits rate has also been cut to 20%. Overall, by 2015-16, these CT cuts will be worth £9.5 billion a year to business.

1.14 As well as the cuts to corporation tax the government has introduced a number of other reforms designed to incentivise business. It has:

- introduced a Patent Box offering a 10% rate of tax on profits attributable to patents and related forms of intellectual property
- increased the generosity of research and development tax credits

1.15 Further measures have been introduced to support investment and reduce costs for small and medium-sized enterprises (SMEs). These include:

- an increase in the Annual Investment Allowance to £500,000 until the end of 2015
- the introduction of the £2,000 Employment Allowance
- the longest fuel duty freeze in over 20 years

1.16 The government recognises that business rates play an important role in the business tax mix, and that policy on business rates can influence investment decisions for small and large businesses.

1.17 The government has listened to the views of stakeholders who have expressed concerns that the business rates system is in need of reform. In response to businesses' concerns that business rates are high, the government announced a £1 billion package of measures at Autumn Statement 2014, on top of the £2.7 billion support package introduced at Autumn Statement 2013, to reduce the business rates burden for all businesses, particularly smaller businesses and retailers. The government also recognises that the business rates system could be simpler, more transparent and easier to deal with. It is running its administration review to respond to businesses' calls for clearer billing, better sharing of information and a more efficient appeals system. It also continues to consider the case for more frequent revaluations, in light of concerns that business rates could be made more responsive to economic circumstances. It is taking forward this long-term review to respond to wider concerns, including that business rates (based on property rental values) do not take into account a firm's size or ability to pay beyond the rental value of the property it occupies.

1.18 The UK has a highly competitive business tax system. This long-term review will consider the role that business rates should play in ensuring the UK's business tax regime remains competitive and raises revenue in the least distortive way.

The government's aims for this review

1.19 This review will look at whether the business rates system remains fit for purpose for the 21st century in light of trends in the use of non-domestic property and in view of recent reforms to the business tax system. The review's terms of reference are set out in box 1.A.

Box 1.A: Terms of reference for the review of business rates

The review will consider changes to business rates in view of trends in the use of non-domestic property and in response to concerns raised by ratepayers that the business rates system is in need of modernisation to make it fit for a 21st century economy. In order to ensure that business rates continue to raise sustainable revenues to fund public services, the outcomes of the review will be fiscally neutral and aligned with the government's wider fiscal plans. The review will report its findings by Budget 2016.

The government's preference is for business rates to remain a tax based on property values, collected by local authorities. However, the government welcomes suggestions of alternative ways of raising local business taxes and how they could work in practice.

To inform its recommendations, the review will assess a broad range of options for reform and:

- conduct a robust analysis of trends in the use of non-domestic property and property values
- review alternative and international examples of local property and business tax systems and draw lessons from them
- consider the impact of the current system of business rates on businesses' decisions to invest, grow and create jobs – this will include evaluating the effectiveness of existing reliefs and exemptions that are designed to support particular types of ratepayers
- consider the role of business rates within the wider tax system, including its responsiveness to economic conditions
- assess the impacts of any potential changes on the ability of the business rates system to deliver fairness, simplicity and stability to ratepayers
- encourage a wide-ranging debate among stakeholders of potential options for reform and their impacts

When considering possible alternatives or changes to the business rates system, the government will bear in mind:

- the advantages of predictability and economic efficiency presented by the existing business rates system
- the suitability of a tax base as a local tax used to fund local public services
- the practicalities of making a transition to a new system
- any 'trade-offs' or other changes that would be required to implement successfully any reforms

Fiscal neutrality of this review

1.20 The government will need to assess carefully the impact of any changes to business rates on the level of funding available for public services. For this reason, the government has confirmed that the outcomes of this review will be fiscally neutral and consistent with the government's agreed financing of local authorities. The next Spending Review also provides the opportunity to consider any changes alongside other decisions on allocation of public spending.

2 Business rates as a tax on property values

The role of business rates in the UK tax system

2.1 The government's preference is for business rates to remain a property tax, administered and collected by local authorities. As a recurrent property tax, business rates have 4 key advantages relative to other forms of taxation. Business rates:

- raise revenue in a way which is less distortionary than some other taxes.[1] The OECD's paper on Tax Policy Reform and Economic Growth, has suggested that recurrent taxes on immovable property are the least harmful for economic growth[2]
- are a relatively efficient tax to collect. Tax avoidance and evasion are lower for property taxes than for other taxes, due largely to the visibility of the physical property upon which the tax is levied
- are based on property. This makes them easier to link to and finance local authorities than, for example, a tax linked to earnings or profits
- are a relatively stable and predictable tax when compared with other taxes, meaning ratepayers have more certainty from year to year about their tax liability which can help with their tax planning. Between revaluations, a ratepayer's bill is stable and will only move broadly in line with inflation (the Retail Prices Index (RPI) of the previous September) unless there are alterations or changes to their property that may increase or decrease its rateable value or the property is in receipt of Transitional Rate Relief as a result of the previous revaluation

Changes in the use of property and their impact on business rates as a property tax

2.2 As set out in the introduction, the government wants to understand better the trends in changes in the use of property in order to inform this review. Some business groups are warning that the tax base for business rates is declining and that this is a major risk for the long-term future of the tax as it is currently structured. They argue that as technology changes the way we work, shop and socialise, so the need for commercial property decreases. For example, some stakeholders have suggested that internet shopping may be decreasing the need for physical floorspace.

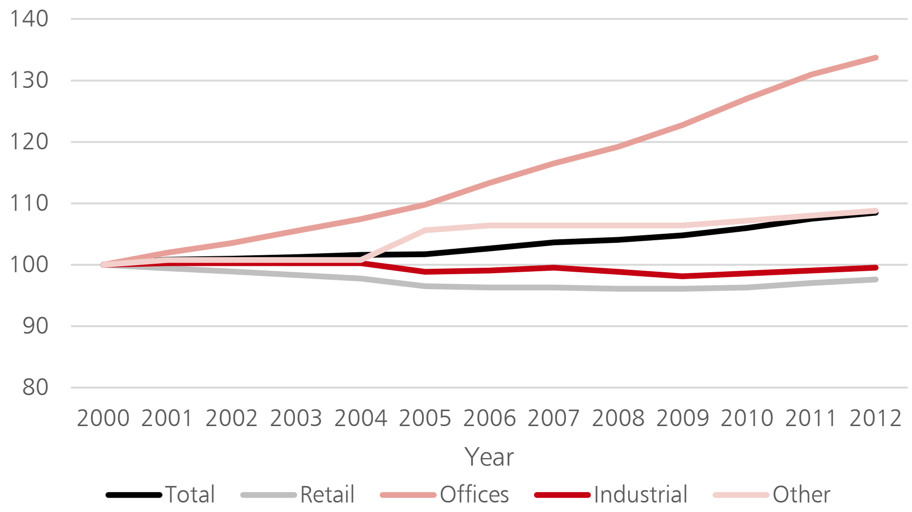
2.3 However, it is unclear whether the amount of property used for non-domestic purposes is declining overall (i.e. whether the business rates tax base is shrinking).

2.4 Data from the Valuation Office Agency (VOA) suggests that the number of properties has increased between 2000 and 2012, as shown in Chart 2.A.

[1] 'Tax by Design', James Mirrlees et al., September 2011: www.ifs.org.uk/uploads/mirrleesreview/design/ch16.pdf

[2] 'Tax Policy Study No.20 – Tax Policy Reform and Economic Growth', OECD, November 2010: www.oecd.org/ctp/tax-policy/46605695.pdf

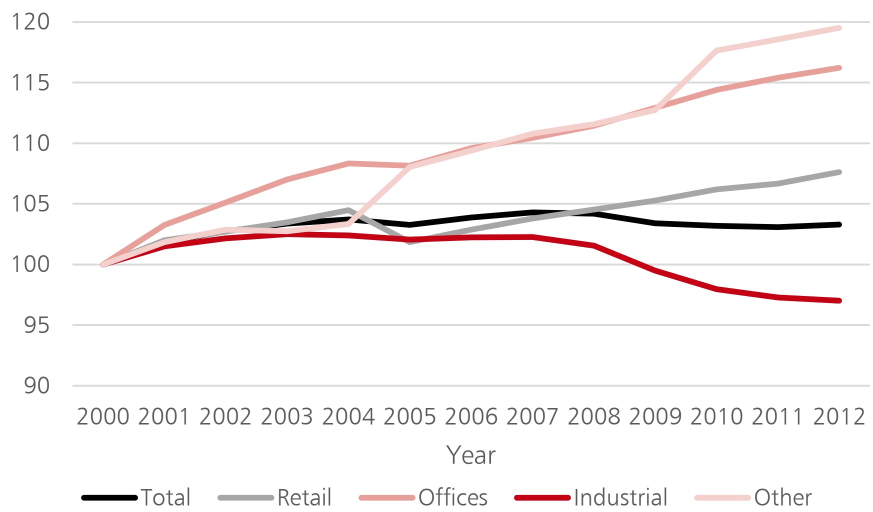
Chart 2.A: Total number of properties in England by category indexed against year 2000 figures



Source: Valuation Office Agency[3]

2.5 Total non-domestic property floorspace, though relatively stable, has also increased slightly over the same period with this increase in total property numbers. Charts 2.B and 2.C show a breakdown of the changes in the total and average floorspace by different categories of non-domestic property.

Chart 2.B: Total floorspace (m^2) in England by category indexed against year 2000 figures



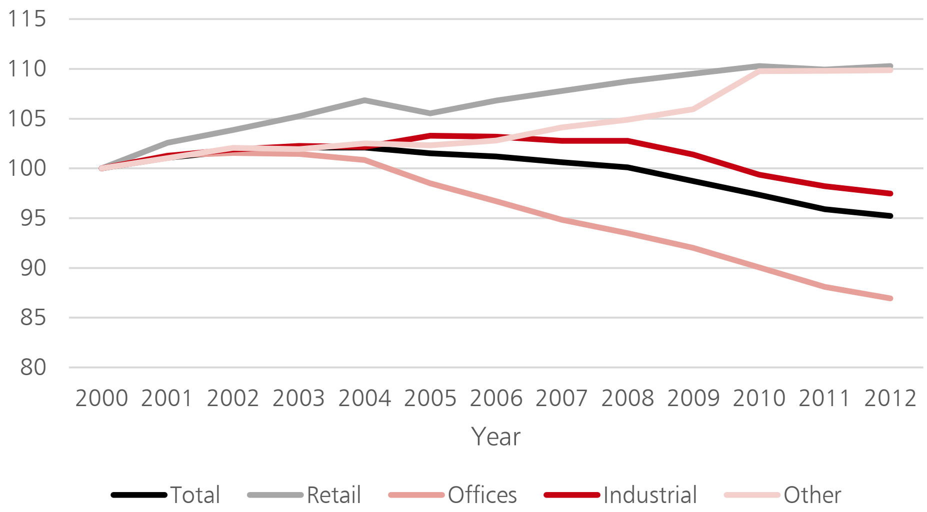
Source: Valuation Office Agency[4]

[3] www.gov.uk/government/statistics/business-floorspace-experimental-statistics

[4] www.gov.uk/government/statistics/business-floorspace-experimental-statistics

2.6 However, average floorspace, though similarly relatively stable, has decreased slightly over the period, as shown in Chart 2.C. This suggests that while total property numbers are increasing, property sizes are smaller on average.

Chart 2.C: Average floorspace (m²) in England by category indexed against year 2000 figures



Source: Valuation Office Agency[5]

2.7 This suggests that the tax base is changing in nature, rather than declining overall. The situation also appears to vary across sectors. Some categories of property, such as industrial properties, appear to have experienced a decrease in both the average floor space per unit and the total floor space. Other sectors, such as the retail sector, appear to have experienced a shift in property use rather than a decline. While the number of retail units has decreased, the average floor space per unit has increased, leading to an overall increase in retail floorspace.

2.8 The government invites stakeholder views on both recent trends and predicted future trends in non-domestic property use including on trends towards 'new' types of properties, such as shared workspaces, and 'new' uses of existing properties, for example the splitting of large offices into multiple properties. Respondents are asked to consider what these changes mean for the fairness and sustainability of the tax.

[5] www.gov.uk/government/statistics/business-floorspace-experimental-statistics

Box 2.A: Questions and requests for evidence

1. What evidence and data can you provide to inform the government's assessment of the trends in use and occupation of non-domestic property?
2. Is there evidence to suggest that changing patterns in property usage are affecting some sectors more than others?
3. What, in your view, does this evidence suggest about the fairness and sustainability of business rates as a tax based on property values?

Alternative ways of raising revenue

2.9 Some stakeholders have proposed alternative ways of taxing businesses, in place of basing business rates on property values. Their aim is often to find a way to take into account other circumstances, not only use of property, which could reflect a business's ability to pay business rates. Some stakeholders have expressed concerns, for example, that larger companies with relatively small property footprints could have lower business rates bills than a small, struggling company with a large property footprint and have suggested linking business rates to turnover or Gross Value Added as a possible solution. Others have suggested finding a way to combine an element of property value with a measure of business size, such as the number of employees.

2.10 Most European countries have local property taxes as part of their tax systems, although they work in slightly different ways to the UK's business rates system. For example, France takes an element of Gross Value Added into account when calculating rates liability. The table below summarises some of the different property based taxes levied by other EU members.

Table 2.A: International comparison of commercial property taxes

Country	Valuation of property	Rate setting	Other features
France [6]	Rental value	Local rate set with reference to turnover	Businesses with turnover > €500,000 are liable for contribution on value added.
Germany [7]	Market value	Federal and municipal rates apply	Standard rate for agriculture / forests
UK	Rental value	Central rate less reliefs	Rate linked to annual inflation measure
Ireland[8]	Rental value	Local rate	

2.11 To date, the government has not been convinced that there is a viable alternative to basing business rates on property values within a balanced and fair tax system. Responses to the government's 2014 discussion paper on business rates administration suggested that continuing to base business rates on rental values would be acceptable to businesses.

2.12 However, the government wants to ensure it considers fully the case for and against keeping business rates as a property tax and welcomes a discussion on evidence-based support for alternative tax bases. It is aware that there is a range of views on the relative benefits and drawbacks of a property tax when compared with alternative tax bases and would like to understand these better.

[6] http://www.impots.gouv.fr/portal/deploiement/p1/fichedescriptive_1006/fichedescriptive_1006.pdf

[7] http://www.gtai.de/GTAI/Navigation/EN/Invest/Investment-guide/The-tax-system/taxation-of-property.html

[8] http://www.valoff.ie/en/

Box 2.B: Questions and requests for evidence

4 What evidence is there in favour of the government considering a move away from a property based business tax towards alternative tax bases? What are the potential drawbacks of such a move?

5 What examples from other jurisdictions and tax systems should the government consider as part of this review? What do you think are the main lessons for the business rates system in England?

3 How business rates revenues are used

3.1 Local authorities hold several key levers to drive economic growth at a local level – including planning, transport and local infrastructure. However, many councils suggest that they currently have poor financial incentives to prioritise these areas to promote growth.

3.2 Following the introduction of the uniform business rate in 1990, business rates revenues were collected by local authority billing authorities and given back to the Exchequer in a single, national pot. This pot was then redistributed by central government through the formula grant. This approach limited the financial incentive for local authorities to grow their business rates base. As a result, the government changed the system of local government funding from 2013-14 with the introduction of the business rates retention system. Under the scheme, the local government sector retains 50% of all business rates receipts, and therefore 50% of any growth. This has increased their incentive to encourage enterprise and job creation. At the same time, the redistribution of business rates receipts within the system between local authorities has ensured that areas with high service demand but low business rate receipts are still able to fund services.

3.3 Nevertheless, there remain those who argue that the government should go further in sharpening the incentive and increase the reward for those local authorities who successfully pursue growth. There are a number of potential options for doing so including greater business rates retention for local authorities, and greater powers over rate setting.

3.4 Some stakeholders have expressed an interest in extending the devolution of business rates to provide local authorities with rate setting powers. This could feasibly lead to the situation which existed under the general rate whereby individual local authorities each set their own rate. Others argue that the existing system treads the right balance between promoting growth and ensuring certainty for local authorities on their funding levels in the medium term. Some businesses have expressed concerns that local rate setting under the previous general rate was damaging to business certainty.

3.5 The government notes that local authorities and local businesses already have powers to use the business rates system to support growth. The City of London has been able to raise a supplement on its multiplier (tax rate) and has done so since 1990. Under the Business Rates Supplement Act 2009, levying authorities have the discretionary power to levy a supplement on the national business rate and use it to invest in additional projects aimed at promoting the economic development of their local areas. The Greater London Authority exercised this power to raise supplementary revenue to partially fund the construction of Crossrail, for example. In addition, Business Improvement Districts, led by business partnerships and created through a ballot process, can also choose to levy a supplement on business rates bills to fund additional services to local businesses.

3.6 The government wants to ensure it considers fully the case for and against increased local business rate retention and other local incentives and would welcome the opportunity to consider views from stakeholders on the relative benefits and drawbacks of increased local retention.

Box 3.A: Questions and requests for evidence

6 How can government use business rates to improve the incentive for local authorities to drive local growth?

7 What impact would increased local retention of business rate revenue have on business growth? What would the impacts be on local authorities?

8 What other local incentives should the government consider to further incentivise business growth?

4 How business rates raise revenue

Responsiveness to wider economic conditions and ability to pay

4.1 There are a number of different views on how business rates could better reflect businesses' ability to pay. Some stakeholders have put forward alternative tax bases as a possible solution, but others believe that there is scope for considering changes within the existing system that would retain property values as the tax base. This could include changes to the multiplier (the tax rate) or the frequency of revaluations. The government's preference is for business rates to remain a property tax but it welcomes views on how business rates could be made more responsive to wider economic conditions and to the circumstances of individual ratepayers.

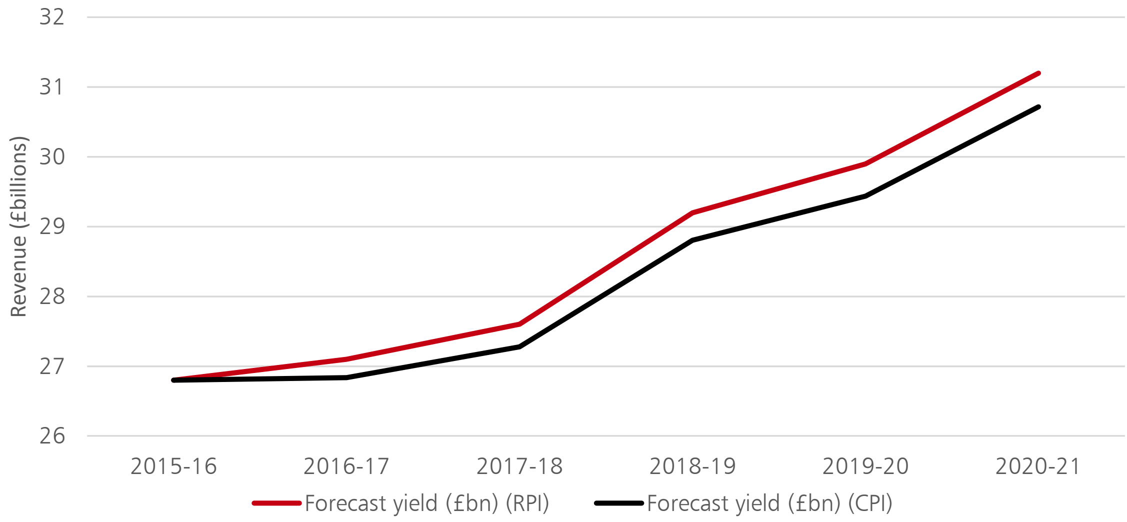
Changes to the inflation-linked business rates multiplier

4.2 Some ratepayers view the stability provided by linking business rates to the Retail Prices Index (RPI) as an advantage as it allows them to estimate broadly the amount of tax they will owe in future years. Others make the case that fixing total business rates yield in real terms makes the tax less responsive to changes in the property market and the wider economy.

4.3 There are a number of different proposals put forward by those who express concerns about the existing RPI-linked system. Some business groups have proposed major changes such as removing the link between the tax rate for business rates and inflation altogether. This would see the total revenues raised from business rates rise and fall more in line with movements in the property market.

4.4 Others support retaining an index of some kind in order to offer some predictability to businesses. Those who support this idea generally advocate a change from RPI to the Consumer Prices Index (CPI). The government has made this change elsewhere in the tax and benefits system, such as for the inheritance tax nil rate band and housing benefit, but, as Chart 4.A shows, applying this change to the business rates system would lead to a significant loss of annual revenue increasing each year. Some stakeholders believe a reduction of this kind is likely to benefit large businesses over small businesses as they pay the largest proportion of the tax (see Table 5.A). Others have pointed to evidence which suggests that this reduction in tax could convert into an increase in rents resulting in no overall change in business costs.

Chart 4.A: Forecast business rates revenues using RPI and CPI indexes



Source: HMT estimates based upon OBR Economic and fiscal outlook forecasts, December 2014

Changes to the frequency of revaluations

4.5 Some stakeholders have advocated administrative changes to the existing system that could make it more responsive to wider economic conditions such as increasing the frequency of revaluations.

4.6 The government's review of the administration of business rates has considered whether carrying out revaluations of non-domestic properties more frequently could strengthen the business rates system's responsiveness to changes in property values. The government invited views on moving to more frequent revaluations and published analysis of their likely impact on businesses and local government.

4.7 The government found that opinion was divided. Most ratepayers requested more frequent revaluations because they feel it will make the system fairer through being more responsive. Analysis by the Valuation Office Agency found that reducing the revaluation cycle would not necessarily make the system less volatile or more responsive. Some ratepayers wish to keep the current 5 yearly cycle to retain the predictability of the tax they pay. And many local authorities wish to maintain a revaluation cycle of 5 years to maintain the certainty and predictability of their funding.

4.8 The government will continue to consider the case for moving to more frequent revaluations. However, as some have pointed out, shorter periods between revaluations will not always result in rates bills moving in the same direction as rents within the current system. As described above, at a revaluation the multiplier is reset to ensure that the same amount of income is raised overall. If total rateable values fall then the multiplier would increase. So if a property's rateable value falls by less than the national average at a revaluation then its rates bill would increase.

4.9 The government therefore continues to welcome views on the extent to which changing the frequency of revaluations could increase the economic responsiveness of business rates alongside alternative suggestions such as changing the annual up-rating of the tax.

Box 4.A: Questions and requests for evidence

9 Should business rates be reformed to make them more closely reflective of wider economic conditions and if so, how?

5 Who pays business rates

5.1 The government recognises that cash flow and profitability are priorities for all businesses and particularly small businesses. That is why it has taken steps to reduce the cost of business rates for all sectors of the economy, for example, by capping the increase in the multiplier at 2% each year since April 2014.

5.2 The government wants to use this review to understand better the level of business rates as a proportion of total operating costs for different sectors of the economy. Groups representing some sectors, such as the retail or hospitality sector, argue that business rates represent a relatively high proportion of their total operating costs when compared with other industries.

5.3 In absolute terms, a small number of highly valuable properties pay a large proportion of total business rates. Table 5.A shows the distribution of properties by rateable value.

Table 5.A: Distribution of properties by rateable values in England as at 31 March 2013

Rateable value bands	Number of properties (thousands)	% of total number of properties	Total Rateable Value (£ millions)	% of total value
£0 - £4,999	651	36.6	1,585	2.8
£5,000 - £14,999	583	32.8	5,120	9.0
£15,000 - £24,999	189	10.6	3,617	6.3
£25,000 - £49,999	166	9.3	5,758	10.1
£50,000 - £74,999	62	3.5	3,784	6.6
£75,000 - £99,999	33	1.9	2,848	5.0
£100,000 - £124,999	20	1.1	3,231	3.9
£125,000 - £149,999	14	0.8	1,869	3.3
£150,000 and above	61	3.4	30,247	53.0
Total	1,779		67,060	

Source: Valuation Office Agency[1]

5.4 The top 5.3% of properties by value make up more than 60% of the total rateable value of all non-domestic properties. In contrast, the bottom 80% of properties by value, make up only 18.1% of total rateable value. The amount paid by businesses in lower rated properties has also decreased in recent years following the extension of the doubling of small business rate relief (SBRR).

Support for small businesses

5.5 Some stakeholders have expressed concerns that business rates represent a proportionately higher fixed cost for smaller businesses. Small and medium sized enterprises (SMEs) often express concerns about cash flow and the impact of business rates on their profitability. For many larger firms, business rates remain a concern and can be one of many factors that multi-national companies consider when deciding where to invest and expand their businesses. The government recognises that views on how the system of business rates could be reformed are likely to differ according to the size of the business and wants to use the review to understand this better.

[1] webarchive.nationalarchives.gov.uk/20141002130923/http:/www.voa.gov.uk/corporate/about/policy/disclosureLogResponses2013.html

5.6 To date, the government has focussed on supporting the smallest businesses by doubling small business rate relief in every year since 2011 from 50% to 100% for single properties with a rateable value of under £6,000, and continuing the tapering of relief for properties with a rateable value of up to £12,000.

5.7 In response to concerns that the business rates regime acts as a barrier to small businesses from expanding or taking on another property, the government changed the rules for small business rate relief. From April 2014 any business in receipt of SBRR taking on a second property will retain the relief on its first property for the first year of occupation; previously it would have lost that relief.

5.8 Some stakeholders have argued in favour of removing lower value properties from the rating system altogether. However, others believe that ongoing targeted relief may be a more cost effective solution and allow for a fairer tapering of relief which reflects ability to pay. Some argue, for example, that removing properties with a low rateable value would be a poorly targeted way of assisting SMEs since it would also remove smaller properties owned by larger companies, such as telephone masts and ATMs, and would also benefit businesses making larger profits from small, inexpensive properties.

5.9 Small businesses operating in larger properties, or those occupying a small proportion of a larger property, have also expressed concerns that business rates are based solely on a property's rateable value. Shared workspaces typically provide flexible and affordable access to workspace for SMEs, micro-businesses and sole traders, and generally lend themselves to collaboration opportunities and peer to peer learning supporting growth and jobs in local economies. Businesses choosing to 'cluster' with other small businesses in shared workspaces rather than to use a single, lower value property, may not necessarily benefit from the doubling of small business rate relief if the property they occupy has a rateable value of more than £12,000.

5.10 The government is interested in hearing views on how the business rates system could better support small businesses.

Box 5.A: Questions and requests for evidence

10 If business rates remain a property tax, how do you suggest business rates could take into account the individual circumstances of businesses such as their size or ability to pay rates?

11 How does the proportion of total operating costs accounted for by business rates vary by the sector and size of a business?

12 What is the impact of the business rates system on the competitiveness of UK businesses? Are there any particular impacts on SMEs?

13 How could the government better target support for SMEs given that the size of a company may not be reflected in the rateable value of a property it uses?

Property improvements

5.11 The amount of business rates payable on a building will increase when the property's rateable value increases. Certain sectors have raised concerns that this could act as a disincentive to make particular types of property improvement. For example, heavy manufacturers have signalled that this is an issue when they consider making investments in plant and machinery. Other stakeholders have raised similar concerns that the existing system discourages energy efficiency improvements.

5.12 In England, the rating of plant and machinery is expressly governed by statute. 'Process' plant – colloquially known as 'tools of the trade' – are generally exempt from rating, unless they are in the structure of a building. The majority of plant and machinery – including communications tools and desktop IT equipment – fall into this non-rateable category. However, The Valuation for Rating (Plant and Machinery) (England) Regulations 2000 set out four classes that define which items of plant and machinery are rateable including items used for power generation or items which supply services such as water or lighting to a property.[2]

5.13 Some have suggested a potential solution might be to remove some rateable plant and machinery from the rating system or build in discounts that take into account a business's investments in energy efficient equipment. Others have pointed to the possible implications of such reforms on the fairness of the system which could favour some sectors over others.

5.14 The government wants to use this review to explore the different ways in which these types of property improvements could be treated within the business rates system.

Box 5.B: Questions and requests for evidence

14 Should investment in plant and machinery, energy efficiency improvements or other similar property improvements be treated differently by the business rates system? If so what changes could be made?

Reliefs and exemptions

5.15 Some types of property and property use are exempt from paying business rates entirely; others receive a discount or some relief from their business rates bill. The total estimated cost of granting reliefs in 2013-14 was £3.59 billion. Some of the reliefs in the business rates system are listed below.

Table 5.B: Reliefs and exemptions

Relief	Cost (£billion) 2013-14	Forecast (£billion) 2014-15
Charitable occupation	1.44	1.46
Small Business Rate Relief (excl. yield from supplement)	1.03	1.00
Empty and partially occupied premises	1.03	1.03
Retail relief	n/a	0.27
CASCs and non-profit	0.05	0.06
Other discretionary	0.03	0.02
Total	3.59	3.84

Source: Department for Communities and Local Government[3]

5.16 The many reliefs in the business rates system vary widely in eligibility and generosity. In addition local authorities have the power to grant business rates discounts to local ratepayers. Each rule has been designed in order to encourage certain behaviours or support those taxpayers who need it most. This review is an opportunity to evaluate the impact of business

[2] http://www.legislation.gov.uk/uksi/2000/540/contents/made

[3] 'Table 2: national non-domestic rates reliefs to be granted by local authorities 2015 to 2016', DCLG: www.gov.uk/government/statistics/national-non-domestic-rates-collected-by-councils-in-england-forecast-for-2015-to-2016

rates reliefs and exemptions. The government wants to consider whether each relief and exemption is achieving its intended aim in the most effective and appropriate way.

5.17 Any alteration to the eligibility and level of existing reliefs may lead to changes in the amount of business rates paid by individual taxpayers. The government recognises that some sectors, such as farming and charities, play an important part in the community. The government does not intend to increase business rates for those most deserving of relief or exemption and it wants to consider carefully the impacts of any change. It therefore welcomes evidence and analysis to support its decision-making.

Box 5.C: Questions and requests for evidence

15 What evidence and analysis should the government take into account when evaluating the impact of and any changes to the range of reliefs and exemptions present in the business rates system?

A Summary of questions and requests for evidence

1. What evidence and data can you provide to inform the government's assessment of the trends in use and occupation of non-domestic property?
2. Is there evidence to suggest that changing patterns in property usage are affecting some sectors more than others?
3. What, in your view, does this evidence suggest about the fairness and sustainability of business rates as a tax based on property values?
4. What evidence is there in favour of the government considering a move away from a property based business tax towards alternative tax bases? What are the potential drawbacks of such a move?
5. What examples from other jurisdictions and tax systems should the government consider as part of this review? What do you think are the main lessons for the business rates system in England?
6. How can government use business rates to improve the incentive for local authorities to drive local growth?
7. What impact would increased local retention of business rate revenue have on business growth? What would the impacts be on local authorities?
8. What other local incentives should the government consider to further incentivise business growth?
9. Should business rates be reformed to make them more closely reflective of wider economic conditions and if so, how?
10. If business rates remain a property tax, how do you suggest business rates could take into account the individual circumstances of businesses such as their size or ability to pay rates?
11. How does the proportion of total operating costs accounted for by business rates vary by the sector and size of a business?
12. What is the impact of the business rates system on the competitiveness of UK businesses? Are there any particular impacts on SMEs?
13. How could the government better target support for SMEs given that the size of a company may not be reflected in the rateable value of a property it uses?
14. Should investment in plant and machinery, energy efficiency improvements or other similar property improvements, be treated differently by the business rates system? If so what changes could be made?
15. What evidence and analysis should the government take into account when evaluating the impact of and any changes to the range of reliefs and exemptions present in the business rates system?

How to engage

A.1 During April, May and June 2015 the review team at HM Treasury will begin evidence gathering and internal analysis. The team will also consider written submissions and research provided by respondents during this period.

A.2 The government welcomes contributions from all stakeholders throughout that period to help inform this work. The review is particularly interested in seeking views from stakeholders on the questions set out in this paper and as summarised below, and evidence in support of any views put forward.

A.3 The government would also welcome submissions on other issues which stakeholders believe to be pertinent to this review but which are not explicitly listed in this paper. To contribute your views, please send written submissions and research to businessrates.review@hmtreasury.gsi.gov.uk. The deadline for final contributions to the initial stage of analysis is 12 June 2015.

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This document can be downloaded from www.gov.uk

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