HM Government

Business rates:
delivering more frequent revaluations

March 2016

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Foreword

The government is providing local authorities in England with greater powers to promote local growth to ensure that business rates continue to raise vital revenue to pay for local services, particularly in the context of the government's commitment to eliminate the deficit. However this alone is not enough. The business rates system in England needs to be modernised so that it also works better for businesses.

The government is already making significant reforms to business rates not least through the introduction of a new appeals system which is currently progressing through Parliament. But more can still be done. Stakeholders have played a vital role in shaping the views of government to reform business rates. As part of the review of business rates administration, the government and stakeholders discussed the merits and challenges of delivering more frequent revaluations under the current valuation system. That discussion confirmed that whilst more frequent revaluations cannot deliver greater bill stability, they can improve the responsiveness to changes in the market. This key message was reiterated by stakeholders as part of the Treasury's business rates review. Therefore the Chancellor announced at Budget 2016 that the government will consider how more frequent revaluations can be achieved.

This discussion paper sets out the significant challenges in delivering more frequent revaluations under the current valuation system and explores possible alternatives that could enable a move to more frequent revaluations. No option is preferred at this stage and we encourage stakeholders to consider the merits and trade-offs that all options present. We look forward to hearing your views and, taken together with the £6.7 billion package of measures the government is delivering as part of the business rates review, we hope this discussion exemplifies our commitment to provide a business rates system fit for the twenty-first century.

David Gauke MP
Financial Secretary to the Treasury

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Minister for Local Government

1 Introduction

1.1 Business rates are a key element of a fair and transparent tax system and are an important part of the business tax mix. Business rates support the long term stability of the economy by providing sustainable tax revenues to fund public services.

1.2 In response to the Treasury's review of business rates in England, the Chancellor has announced £6.7 billion of support for ratepayers and plans to modernise the tax to make it fit for the twenty-first century, building on the devolution plans set out at Autumn Statement 2015.

1.3 The government has also listened to the views of stakeholders who have expressed concern that the business rates valuation system is in need of reform. This discussion paper builds on the work already carried out as part of the government's review of business rates administration and the views that stakeholders have also expressed in responses to the Treasury's review of business rates.

1.4 In April 2014 the government published a discussion paper on the administration of business rates and asked for views about five aspects of the business rates system; how property is valued; how often property is valued; how business rates bills are set; how business rates are collected; and how information about ratepayers and business rates is collected and used.

1.5 The government received over two hundred written responses to the discussion paper and officials held over thirty workshops throughout England. The interim findings were published in December 2014. A key theme of the responses was for the business rates system to be made more responsive to economic conditions. This message was reiterated in the responses to the Treasury's review of business rates. Some groups wish to retain the current five year cycle whereas others have called for more frequent revaluations on the basis that this could make rateable values more responsive to changes in market conditions. Although three yearly revaluation was the most popular option proposed by stakeholders, others favoured annual revaluations.

1.6 The government has listened to these calls and it aims to move to more frequent business rates revaluations. Any new system must continue to provide a stable business rates base, be affordable to administer and be fair between ratepayers. And any changes to the system will need to be fiscally neutral. This discussion paper explores the significant challenges of delivering more frequent revaluations under both the current system and under other possible options to make the business rates system more responsive.

About this discussion paper

1.7 The government is seeking views from of stakeholders as it begins to consider how more frequent revaluations could be delivered and as it develops options for change. The chapters of this discussion paper cover:

- more frequent revaluations under the current system
- a self-assessment option and
- a formula option to preparing valuations.

1.8 The annex provides further details on how the business rates system currently operates.

1.9 The purpose of this paper is to start a discussion on how more frequent revaluations could be delivered. This paper does not set out firm proposals but gives possible options and asks questions about these options.

1.10 The government also welcomes views on other potential approaches that could provide a stable business rates base, are affordable to administer and are fair between ratepayers. In addition any proposals will need to be fiscally neutral.

1.11 The government wants to hear views from a wide range of stakeholders about these options and other possible solutions to deliver more frequent revaluations.

2 Revaluations under the current system

2.1 The current valuation system provides a number of benefits for ratepayers, local authorities and government. The Valuation Office Agency (VOA), not ratepayers, is responsible for assessing the rateable values of non-domestic properties for business rates. As an Executive Agency of HM Revenue and Customs, the VOA acts impartially to produce valuations that are bespoke and take into account the individual features of England's 1.8 million non-domestic properties. The system aims to provide fair and accurate rating assessments.

2.2 Whilst ratepayers appreciate these features of the current valuation system, there are a number of significant challenges which would need to be overcome to enable more frequent valuations to be delivered in a sustainable and affordable way under the current system. These relate to:

Collecting and analysing evidence

2.3 Providing individual valuations for around 1.8m properties requires the VOA to collect significant amounts of information relating to properties, rents and occupation. Under the current system this evidence collection phase takes around two years and requires significant amounts of resource. Without reform increasing the frequency of revaluations would mean that this activity needed to take place constantly, increasing the cost of operating the system significantly. Therefore, to deliver more frequent revaluations the government would need to reform the way it collects and uses evidence for rating valuations.

2.4 Much of the evidence is only available from ratepayers, so to support more frequent revaluations ratepayers would need to provide information more frequently. Some information relevant to a revaluation can take some time to become available due to the fact some contract and rent review negotiations are prolonged and may not in fact be concluded for some time until after the rental agreement begins meaning it cannot be submitted any earlier.

Access to skills

2.5 Producing the valuations required to underpin the business rates system requires skilled staff to inspect properties, analyse evidence and produce valuations. The VOA is already one of the largest employers of chartered surveyors in the UK. At present the VOA flexes its resources over the revaluation cycle, moving resources from other work, such as appeals handling, to revaluation activity at different points in the cycle. More frequent revaluations would mean this was no longer possible and the VOA would require significantly more skilled staff. This barrier is not just about the additional cost of those staff, though that would be significant, but also the availability of those skills in the wider market. Recruiting sufficient chartered surveyors is already challenging for the VOA.

Multiple rating lists

2.6 The VOA already maintains multiple rating lists, but under a system of more frequent revaluations this would become more complex. Under the current system the VOA must begin work on a rating list two years before it comes into force. More frequent revaluations would mean that there was still significant work in process from one list whilst the next list becomes current, and the subsequent list is being prepared. A change in one rating list may need to be reflected in the others – for example a change notified to the VOA in the current list may mean the previous list needs to be altered, and may also need to be reflected in the next list under preparation. As well as being more complex and costly to administer, this would also create more complexity for ratepayers and local authorities as they would need to manage appeals, bills or reliefs across multiple rating lists to a much greater extent than they do now. Therefore, to deliver more frequent revaluations the government would need to reform the way it manages multiple rating lists.

Appeals

2.7 Under the existing five year revaluation cycle system[1] the VOA already receives about 900,000 appeals for each revaluation. As each revaluation can result in a change in rateable value, it produces a new right to appeal for ratepayers. Therefore, increasing the frequency of revaluations provides more scope for higher numbers of appeals. This would slow the appeals system down significantly, increase uncertainty for ratepayers, increase the cost of administering business rates significantly and create more uncertainty and risk for local government and the services they support.

2.8 The current appeals system is being reformed and the new Check, Challenge and Appeal regime will be introduced in April 2017. The reforms will promote early engagement by all parties at all stages so that cases are resolved as soon as possible. This is expected to result in a more efficient system and reduce the number of cases which reach the appeal stage and the time it takes to deal with those appeals. The government is also working with local authorities to examine how the risk of appeals can be better managed in the rates retention scheme. But these changes alone will not fully address the challenges of appeal volumes, and in particular the resources required by both the VOA and the Valuation Tribunal to resolve them. Therefore the government would need to build on these reforms to ensure appeals do not become unmanageable under more frequent revaluations.

Discussion points on the challenges of delivering more frequent revaluations under the current system

2.9 The government would welcome views on the challenges of delivering more frequent revaluations under the current system.

- particular stages of the valuation process where reforms would be needed to deliver more frequent valuations
- the effect of more frequent revaluations on appeals
- the increased risk of appeals and how could this be avoided or managed
- accessing the skills to deliver more frequent revaluations
- how the delivery of rating valuations could be reformed to support more frequent revaluations

[1] The most recent revaluation was postponed from 2015 to 2017 to provide greater stability for businesses during a period of economic difficulty. As a result the current revaluation cycle will last seven years.

- collection and analysis of information to support more frequent revaluations, including the role of ratepayers

3 A self-assessment option

3.1 There are various potential options of delivering more frequent updates to valuations that have been explored in previous consultations. These have included moving to a banded approach, similar to Council Tax, or changing the way property is valued such as using capital values or a formula approach based on construction costs. The government has also considered changing the basis of the tax so it is paid by owners rather than occupiers. Options based on income or size of the business have also been explored. None of these have received widespread support or would necessarily help deliver more frequent revaluations. However, one suggestion from a number of stakeholders is a self-assessment model which could support more frequent revaluations. Whilst such a system would be challenging to deliver it is worth exploring further.

3.2 Self-assessment has been successfully operated by HM Revenue and Customs (HMRC) in other areas of tax, most notably income tax, since 1996. In some cases, such as inheritance tax and capital gains tax, this includes the requirement to self-assess a property's value. The system is supported by online systems and comprehensive guidance to assist taxpayers in meeting their responsibilities. Taxpayers must complete and file tax returns, either manually or on-line, to a deadline. HMRC processes returns on receipt as though they are complete and correct but then has the right to enquire into any return to check its accuracy within a fixed time limit.

3.3 HMRC is in the process of moving some taxes from an annual return basis to the use of online digital accounts where taxpayers keep their details up to date as their circumstances change.

3.4 Whilst a self-assessment system for business rates would place new obligations and responsibilities on ratepayers it could benefit businesses by:

- delivering a more responsive business rates system by allowing more frequent revaluations
- giving ratepayers greater control in ensuring their valuations were up to date so that they pay the right amount of business rates
- making the business rates system more integrated with and aligned to the rest of the UK tax regime
- significantly reducing the number of appeals as customers would be producing their own valuations and so would only need to appeal if there was an issue with the valuation following VOA compliance activity

Key features of self-assessment for business rates

3.5 Some of the key features of a self-assessment type system for business rates could be:

- a property's rating assessment would be undertaken by the ratepayer (or his/her representative) and not by the VOA.[1] Ratepayers would accept more responsibility in return for more frequent valuations. Self-assessment would mean ratepayers value their property rather than the government.
- a modern, digital, secure account for ratepayers to submit self-assessed rating information.

[1] In most cases identifying the ratepayer and unit of property liable for assessment will be a clear and straightforward matter. However the government would need to provide support to assist people in determining this prior to the self-assessment taking place.

- each ratepayer would submit their own individual self-assessment of their own business rates liability against a common basis such as a single valuation date.
- the VOA would provide help and assistance to ratepayers, particularly small businesses, in the form of accessible guidance and support which explains to ratepayers what they need to do, how to complete their self-assessment and where to go for further help if they chose not to employ an agent. However it is recognised that many ratepayers might use an agent to provide their self-assessed valuation, much like many businesses use an accountant to fulfil their compliance and administrative responsibilities for other taxes.
- a risk based compliance system, backed up with new powers and penalties, to ensure non-compliance was identified and addressed.

Compliance

3.6 Compliance is key to the success of any self-assessment system and to reassuring local authorities that the system will be robust enough to deal with those who may mispresent the value of their property. It is envisaged that the VOA would draw upon the best practice developed from HMRC's experience of operating a range of self-assessment systems. Some of the features of the compliance system would be:

- tools and systems which help customers to get things right and work with agents and business groups to build relationships and help increase compliance. This would include guidance and interactive support but in the future could extend to new digital solutions to help ratepayers measure their property for example
- digital services which design in compliance – for example preventing a submission if some data is omitted or prompting customers to check if certain fields are outside of an expected range
- pre-filing checks available to assist ratepayers with genuine problems arriving at a valuation - building on the "prior agreement" system which the VOA currently operates for some properties
- ensuring customers are aware of their obligations and the risks of non-compliance, including the introduction of a regime of interest and penalties for those who do not meet their obligations or submit incorrect valuations
- using risk rules, modelling and third party data to identify the highest risk returns or other non-compliance and take effective action
- publicising compliance work to reassure the honest majority that non-compliance is actively identified and addressed
- if no valuation was provided despite compliance activity, the VOA would value the property with no right of appeal and a further penalty would apply
- additional support for small businesses, particularly those with no rates bill as a result of Small Business Rates Relief, which might otherwise see a significantly increased burden as a result of self-assessment

3.7 As part of a system of self-assessment the government would expect ratepayers to be able to assess their own rateable value or use professional advice to do so. Ratepayers who failed to meet this expectation (either deliberately or carelessly) would be liable for penalties and interest on any late paid tax. As with other systems of self-assessed taxes, compliance activity would check whether the assessment was correct and where it was not what level of penalty would apply. The level of any penalty would depend on the nature and size of the inaccuracy, plus the ratepayer's willingness and co-operation in putting it right.

Information required to self-assess

3.8 Business rates are currently calculated according to a property's rateable value, which is an amount equal to the rent for which it is estimated a property would be let from year to year at the valuation date. For the vast majority of properties, including offices, shops and warehouses, rateable value is based on actual rents being paid by occupiers of similar properties in the locality. This is why collecting evidence is a key part of the work that the VOA does in preparation for a revaluation under the current system and could still be necessary in the future.

3.9 Some rental information currently collected by the VOA is commercially sensitive and some businesses, landlords, pension funds and the surveying profession have argued against the publication of rental information during previous engagement on business rates. Conversely other stakeholders have argued that the publication of non-domestic rental information would make the business rates system fairer, more transparent and easier to understand.

3.10 VOA experience suggests that many ratepayers and their representatives are able to produce their own property valuations without rental information being disclosed by the VOA. Many ratepayers will do this as part of their day to day business when deciding where to base their businesses or whether the rent being asked by a landlord is reasonable.

3.11 The government recognises, however, that for some ratepayers, the inability to access relevant information on comparable properties could be a barrier to providing their own valuations under a self-assessment system.

3.12 Therefore, under a self-assessment system the government would have to consider whether to publish rental information to support valuations done by ratepayers. There are two broad approaches the government could take:

- not to publish any information. Ratepayers would need to self-assess using the information and evidence available to them publicly, or which they already had access to in the course of their business
- to publish information. For example by publishing information submitted by ratepayers in one year to support self-assessment in the following years

Maintaining revenues

3.13 As with the current system, under self-assessment the government would be able to adjust the multiplier to ensure a stable level of income for local authorities.

VOA duty to maintain the rating list

3.14 The VOA currently has a statutory duty to maintain the rating list. This means it seeks to ensure that errors or inaccuracies in rateable values are corrected.

3.15 Under a self-assessed system the VOA would have a different role so the current statutory duty to maintain the valuation list would be replaced with a duty on the VOA to undertake compliance work.

Publishing a list of rateable values

3.16 The VOA currently publishes a list of rateable values for business rates purposes. It would be possible under a self-assessed system to continue publishing a list of rateable values based on the values self-assessed by ratepayers. That would allow ratepayers to compare their rateable value to that of other similar properties to help them self-assess their own property.

3.17 However, as with other systems of self-assessment, businesses may consider their self-assessed valuations to be their own private assessment of the value of their property rather than something they can, or want to, publish and compare to others.

3.18 Clearly if a list of rateable values was not published it would still have to be made available to local authorities so they could levy the correct amount of business rates.

Discussion points on self-assessment

3.19 The government would welcome views on a self-assessment system for business rates in England.

- the potential compliance regime under self-assessment
- the publishing of rental information by the VOA to assist ratepayers when they self-assess
- the publication of rateable values of all properties under a self-assessment system
- the role for ratepayers
- specific issues relating to smaller businesses or other ratepayers for whom self-assessment could be particularly challenging

4 A formula option

4.1 Much of the complexity of the current business rates system is linked to the requirement that property valuations are estimates of what a property might be let for at a set date (the Antecedent Valuation Date). Establishing the market rental value of a property can be complex as it requires whoever is valuing the property to gather evidence about the market around the valuation date and make judgements about the specific value of a given property.

4.2 As an alternative, a formula could be constructed that centred on the measurement of, for example, shops, offices and factories and the categorisation of the space. The standards would need to be significantly simpler than the current Royal Institution of Chartered Surveyors' standards. For example, shops of the same size in the same local authority might have the same assessment irrespective of their shape, layout and specific location. Industrial units might have the same assessment irrespective of the loading of the floors in order for ratepayers to be able to measure their own property. The formula could not be too sophisticated otherwise it would become unwieldy for ratepayers to use as well as for the government to maintain and legislate.

4.3 The introduction of a formula based system would be challenging to deliver but would simplify the valuation process and therefore, potentially, allow for more frequent revaluations. It could also make it simpler for many ratepayers to self-assess. The trade-off would be a move away from a system based directly on market values and the specific aspects of the property, although a loose link to a rental market value could be retained in the formula itself. A separate approach might be needed for large or specialist properties where any formula could be unwieldy. However a formula for common classes of property such as shops and offices could be feasible.

4.4 In a system like this, the government would:

- define the formula for how certain classes of property, for example shops, offices, factories and warehouses, would be assessed for business rates.
- provide guidance on how the features contained within the formula should be measured or categorised – for example what to include in a measurement of floor space. Collecting this information would be much simpler for ratepayers than the information required to arrive at a valuation under the current system.
- set different values based on location and property characteristics that would be applied to each formula. So for example, the government might set different values for different classes of property such as for shops, offices and warehouses. They would also set different values per square metre of property for different local authorities or regions.
- conduct compliance activity as outlined in the previous section following self-assessment by ratepayers.

4.5 Ratepayers would:

- collect the information required for the formula which would be far simpler than the types of information currently required.
- use an online system to enter these details and any supporting evidence.
- use the formula to calculate their assessment and then calculate their business rates assessment by applying the appropriate level of charge.

4.6 A formula approach would result in:

- a system which was easier for the majority of ratepayers, particularly small businesses, to understand and do what they need.
- a clear set of features which were taken into account in calculating a business rates assessment, potentially allowing ratepayers to make informed choices about changes to their business or property and the impact on their business rates liability.
- more certainty for local authorities in relation to business rates income.

4.7 A formula based approached would deliver a simpler system for ratepayers and also provide local government with a more secure source of business rates income. As such, it would allow for more frequent revaluations. However, for a formula system to be deliverable businesses would have to accept assessments that do not reflect the individual characteristics of their property or its location in the same way as the current system. In such a system subsequent revaluations may have less impact on rate bills and less meaning for ratepayers. It may also mean that smaller scale and marginal improvements to properties do not increase bills and therefore do not generate any growth in business rates for local authorities.

Discussion points on a formula approach

4.8 The government would welcome views on a formula approach to business rates in England.

- the associated move away from a link to market values
- the classes of property that would be suitable for a formula approach
- the factors that would need to be included in the formula beyond class of the property, size of the property and location
- the balance of efficiency, simplicity and certainty that a formula approach would provide against any desire to retain valuations that take greater account of the individual characteristics of properties
- the implications for businesses of different sizes

5 Summary

5.1 This discussion paper has explored possible options to make the business rates system more responsive and invites comments and suggestions from stakeholders on the challenges of delivering more frequent revaluations under the current valuation system and alternative options.

5.2 The government also welcomes views on other approaches that deliver more frequent revaluations, provide a stable business rates base, are affordable to administer and are fair between ratepayers. In addition any proposals will need to be fiscally neutral.

Box 5.A: Summary of discussion points

The challenges of delivering more frequent revaluations under the current system

- Particular stages of the valuation process where reforms would be needed to deliver more frequent valuations
- The effect of more frequent revaluations on appeals
- The increased risk of appeals and how could this be avoided or managed
- Accessing the skills to deliver more frequent revaluations
- How the delivery of rating valuations could be reformed to support more frequent revaluations
- Collection and analysis of information to support more frequent revaluations, including the role of ratepayers

A self-assessment alternative

- The potential compliance regime under self-assessment
- The publishing of rental information by the VOA to assist ratepayers when they self-assess
- The publication of rateable values of all properties under a self-assessment system
- The role for ratepayers
- Specific issues relating to smaller businesses or other ratepayers for whom self-assessment could be particularly challenging

A formula alternative

- The associated move away from a link to market values
- The classes of property that would be suitable for a formula approach
- The factors that would need to be included in the formula beyond class of the property, size of the property and location
- The balance of efficiency, simplicity and certainty that a formula approach would provide against any desire to retain valuations that take greater account of the individual characteristics of properties

- The implications for businesses of different sizes

How to contribute to the discussion

5.3 To contribute your views, please send written submissions (up to 5Mb) and research to valuationdiscussiondocument@voa.gsi.gov.uk. The deadline for contributions is Friday 8 July 2016.

A The current business rates system in England

A.1 Business rates are a tax based on property values and help pay for public services. They have been devolved to Scotland, Northern Ireland and Wales. 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.

A.2 Business rates in England raise around £24 billion a year from around 1.8 million non-domestic properties. Business rates are calculated according to a property's 'rateable value' which is set by the Valuation Office Agency (VOA) 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. A business rates bill is worked out by:

- multiplying the rateable value of a property (set by the VOA) by the business rates multiplier (set by central government) and then
- applying reliefs the ratepayer is eligible for, which can include transitional relief

A.3 The valuation date (known as the Antecedent Valuation Date) is currently set at two years before the revaluation comes into effect. This is to allow the VOA time to collect rental evidence, prepare valuations and consult with ratepayers. It includes six months for ratepayers to check their rateable value and prepare for changes to their rates bills. This approach ensures rateable values are based on evidence and ratepayers are given advance warning of changes to rates bills.

A.4 Revaluations normally take place once every five years. The purpose of a revaluation is to align rateable values with current rental values set by the market. As a result, revaluations reflect relative changes in the rental value of property between different sectors and locations, so that the total business rates bill is shared fairly across ratepayers. A revaluation does not raise any extra revenue. Its aim is to redistribute the amount businesses pay based on changes in the rental market i.e. rises and falls in the rental value of the property. To maintain the revenue raised through business rates at roughly the same amount when rateable values change at a revaluation, the government adjusts the business rates multiplier (the tax rate) either up or down. If the rateable value of a property falls by more than the national average at a revaluation, the rates bill for that property will see a decrease. However, if a property's rateable value falls by less than the national average, its rates bill will increase.

A.5 The most recent revaluation came into effect on 1 April 2010 and is based on rateable values set at 1 April 2008. In 2012, the government postponed the revaluation due in 2015 until 1 April 2017 in order to provide greater stability for businesses during a period of economic difficulty. The next revaluation is currently underway and will come into effect in April 2017.

A.6 On 1 April 2013 a new system of business rates retention began in England to reward local authorities for increasing and supporting the businesses in their area. Local authorities are now able to retain up to 50% of the income they collect from business rates. Under the previous system, local authorities collected the business rates but paid them into the Treasury which then redistributed them back via a formula known as formula funding.

A.7 The current government confirmed at Autumn Statement 2015 that it intends to move to local government retaining 100% of its business rates by 2020. It is clear that any business rates retention scheme must be built upon a valuation system that is stable and predictable and has a high compliance rate. Any proposals that change how frequently properties are revalued will need to consider the risks to local authorities of volatility in rates income. However, the intention is that any changes will be fiscally neutral and as such the total amount raised from business rates will remain constant, subject to changes to reflect inflation and any growth in business rates.

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This document can be found in full on our website: http://www.hm-treasury.gov.uk

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