HM Treasury

Business rates review:

Summary of responses

March 2016

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Executive summary

The government launched the business rates review at March Budget 2015 and set out its intention for the review to be fiscally neutral. Stakeholders responded with a range of views. In summary:

- The majority of respondents were in favour of retaining a property based tax. These respondents agreed with the government's view that property based taxes were easy to collect, difficult to avoid and that they had a clear link with local authority spending. Some large retailers and small businesses suggested alternative tax bases. Large retailers suggested that a tax on margins or Gross Value Added should be considered while some small business respondents suggested switching to a turnover or local sales tax. Local authorities came out strongly in favour of retaining a property tax, based on rental values.
- Most respondents wanted a cut in rates for their businesses and there was a range of views on which reliefs should be continued, removed or increased. There was widest support for continuing relief for small businesses and taking properties with a rateable value below £12,000 out of business rates all together.
- Business respondents suggested that if business rates are updated by inflation, then the indexation should be in line with the CPI. Local authorities highlighted this would have to be considered in the context of local government financing.
- The majority of businesses wanted more frequent revaluations. Businesses realised this would not necessarily lead to lower bills for many ratepayers even if rateable values decreased, but they felt this would make the system more responsive to relative changes in rent and fairer as a result. Some believed that annual revaluations should be the ultimate goal, but a 3 year revaluation was felt to be the most sensible time period.
- Local authorities were in favour of greater rates retention and devolution of rate setting and relief setting powers. They felt these powers would be effective tools for them to boost growth as they were better placed to respond to the specific needs of businesses within their locality. There were mixed views amongst businesses on rates retention. Some saw the potential benefit the scheme could bring by sharpening local authorities' incentive to promote growth. Others wanted to allow the current scheme to develop further before increasing the proportion of rates retained by local authorities. Businesses were concerned that greater local devolution could lead to higher rates.

The government has considered the views of businesses and local authorities. In concluding the business rates review the government has delivered on their main proposals. The government will cut the burden on ratepayers in England by £6.7 billion over the next five years, cutting business rates for all properties and ensuring that the smallest businesses pay no rates at all; while modernising the tax to make it fit for the twenty-first century.

The government recognises that business rates represent a higher fixed cost for small businesses. At Budget 2016, the government announced cuts in business rates from next year for half of all properties – 900,000 smaller properties – starting 1 April 2017. The government will:

- permanently double Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses. Businesses with a property with a rateable value of £12,000 and below will receive 100% relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all - a saving worth up to £5,900 in 2017-18. An additional 50,000 will benefit from tapered relief
- increase the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate. This will reduce business rates for many small businesses – including some high street shop

From April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI, in line with the government's previous commitment to consider moving the indexation of indirect taxes from RPI once fiscal consolidation is complete. This represents a business rates cut every year from 2020.

The government will also modernise the administration of business rates to revalue properties more frequently and make it easier for businesses to pay the taxes that are due:

- the government will aim to introduce more frequent business rate revaluations (at least every 3 years) and will publish a discussion paper in March 2016 outlining options on how to achieve this to support both businesses and the stability of local authority funding
- the government will transform business rates billing and collection. By 2022, local authority business rate systems will be linked to HMRC digital tax accounts so that businesses can manage their rates bills in one place alongside other taxes. As a first step, the government will work with local authorities across England to standardise business rate bills and ensure ratepayers have the option to receive and pay bills online by April 2017
- once local authority and HMRC systems are linked, the government will consider the feasibility of replacing SBRR with a business rates allowance for small businesses – this would be applied to a business's total property portfolio across local authority areas allowing businesses that grow and acquire more property to benefit from relief

These measures build on the devolution revolution confirmed at Autumn Statement 2015 which will allow local government to keep 100% of the business rates they collect from business, give councils the power to cut business rates to boost growth, and give elected city-wide mayors the power to levy a business rates premium for local infrastructure projects – with the support of local business. Local government will be compensated for the loss of income as a result of the business rates measures above, and the impact will be considered as part of the government's consultation on the implementation of 100% business rate retention in summer 2016.

At Budget 2016, the government published a Business tax Roadmap which set out plans for business tax over the parliament including on business rates, corporation tax and reforms to ensure large multinational pay their fair share of tax. By raising £8bn through a package of measure to counter tax avoidance and aggressive tax planning by Multinational enterprises the government has been able to fund reductions in business rates and a further corporation tax cut.

1 Introduction

1.1 The government announced a review of business rates at Autumn Statement 2014. The terms of reference for the review and a discussion paper were launched at Budget 2015.

1.2 The government invited views from a wide range of stakeholders, including businesses, local authorities and others, and sought views and evidence on a number of key areas, set out below:

- The business rates tax base; including trends in commercial property use and evidence in favour of alternative tax bases
- How business rates revenues are used; including ways in which business rates could better support local growth
- How business rates raise revenue; including uprating and whether business rates should be reformed to make them more closely aligned with wider economic conditions, for example, through more frequent revaluations
- Who pays business rates; including the impact on different sectors and the role of reliefs and exemptions

1.3 The government is very grateful for the range and level of responses received. In total, the review received 269 responses, of which;

- 102 came from local authorities and their representative bodies
- 72 came from business rep bodies
- 41 came from small and medium sized enterprises
- 22 came from large businesses
- 17 came from rating agents and property consultants
- 15 came from think tanks, consultants, academics and individuals

The government's aims for the review

1.4 The government is committed to reducing the fiscal deficit and returning the public finances to surplus by the end of the parliament, while ensuring the UK has a competitive tax system which attracts business and fosters growth.

1.5 The terms of reference for the review established that the outcomes would be fiscally neutral and aligned with the government's wider fiscal plans in order to ensure business rates continue to raise sustainable revenues to fund public services. The government also outlined its preference for business rates to remain a tax based on property values, collected by local authorities.

Conclusion of the review

1.6 The government is now concluding the review of business rates. The government has set out its propose actions in response to the review, building on earlier work undertaken as part of the review into the administration of business rates.

2 Summary of responses

The business

2.1 This chapter summarises the key points and suggestions put forward by stakeholders in response to the business rates review and provides the government's response.

The business rates tax base

2.2 The discussion paper set out evidence on the changing use of property, and examples of alternative international property tax systems. The government sought views and evidence on the following questions in relation to the business rates tax base:

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?
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?

Stakeholders' views

2.3 The majority of respondents were in favour of retaining businesses rates as a property tax, based upon rental values. There was support for retaining the property base across all sectors of the business community, including manufacturers and some retail groups, and strong support amongst local authorities. These respondents agreed with the government's view that property based taxes were easy to collect, difficult to avoid and that they had a clear link with local authority spending.

2.4 There was some evidence provided which suggested there were changes taking place in the use of property. Some pointed to the shift away from bricks and mortar retailing towards greater online retailing. However, the picture overall was one of changing patterns of use within different sectors rather than a decline in property use overall. Although increased internet shopping might lead some larger retailers to rationalise their portfolio of physical property, others pointed out that this has led to increased demand for retail warehouses, and that new, more leisure-orientated businesses were now occupying traditional retail space on many high streets.

2.5 Some large retailers and small businesses suggested alternative tax bases. Large retailers suggested that a tax on margins or GVA should be considered. Some small business respondents put forward a turnover or local sales based tax.

2.6 However, even those large business representative bodies that put forward alternatives to the property tax base were clear that these tax bases were not without their own issues. Some industry specific representative bodies also came out strongly against the possibility of using turnover as a tax base as they felt it did not fairly reflect the success or size of their businesses. Many of these industries operated high turnover, but low margin, business models.

2.7 Local authorities came out strongly in favour of retaining a property tax, based on rental values. They felt this provided a clear link between business activity and local authority funding, and provided a steady, easy-to-collect revenue stream.

Government response

2.8 Following consideration of stakeholders' views, the government continues to believe that property taxes have several key advantages over other forms of business taxation. It is clear that these taxes;

- raise revenue in a way which is less distortionary than some other taxes.[1]
- are a relatively efficient tax to collect. Tax avoidance and evasion are lower for property taxes than for other taxes
- are 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, that means ratepayers have more certainty from year to year about their tax liability which can help with their tax planning

2.9 The government has carefully considered proposals on turnover and value added, taking into account the experience of other jurisdictions, but it believes these would add unnecessary complexity to the system. Therefore, the government will retain a property based tax, in line with the majority of stakeholders' responses.

Devolution and how business rates are used

2.10 The discussion paper looked at the interaction between business rates and local authority funding, and explored whether there could be ways of better driving local growth.

Box 2.B: 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 will increased local retention of business rate revenue have on business growth? What will the impacts be on local authorities?

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

Stakeholders' views

2.11 There was strong support for business rates retention amongst local authorities, with the majority in favour of a greater level of retention. They believed it would allow them to better control their own finances, and to benefit more from business growth in their areas. Some local

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

authorities raised issues to consider, including the impact of appeals. Others suggested the government would need to consider the reset, redistribution between local authorities and the risk posed by the failure of large businesses to local authority finances.

2.12 There was also strong support amongst local authorities for greater devolution of reliefs and rate setting. The vast majority who raised the issue in their responses were in favour of giving local authorities greater control over rate setting. Many were also in favour of greater local control of reliefs. Local authorities felt these powers would be effective tools for them to boost growth as they were better placed to respond to the specific needs of businesses within their locality.

2.13 There were mixed views amongst the business community on rates retention. Some saw the potential benefit the scheme could bring by sharpening local authorities' incentive to promote growth. Others wanted to allow the current scheme to develop further before increasing the proportion of rates retained by local authorities.

2.14 The majority of businesses and business groups were concerned at the prospect of local rate setting, fearing it would lead to an increase in rates. There was limited discussion from the business community of the prospect of devolving responsibility for reliefs to local authorities, although some called for central government to either provide local authorities with more detailed guidance or to underwrite a greater percentage of the cost for discretionary reliefs.

Government response

2.15 At Autumn Statement 2015 the government announced plans to devolve greater powers for business rates to local government so local areas have the tools to drive growth, attract investment and create jobs. The government has announced:

- by 2020 local government will retain 100% of business rates revenues
- it is ending the national tax on local growth by abolishing the levy - so that councils see all of the benefits when they take action to grow the economy
- all local councils will have the power to reduce business rates to support business and jobs in their area
- mayoral authorities will have the power to levy a small supplement on business rates to fund new infrastructure as long as they win the support of local business through the Local Enterprise Partnership

2.16 The government has listened to businesses' concerns that the devolution of business rates could lead to rate rises. The government is ending the uniform business rate, giving local councils the power to reduce business rates across the board to support businesses and jobs in their area. Mayoral authorities will have the power to levy a small supplement to fund new infrastructure, but only with the agreement of business members of Local Enterprise Partnerships. At Budget 2016, the government announced that all Local Enterprise Partnerships will be required to have a nominated Small Business Representative on their Board. This will help to ensure the money is only raised to fund projects which should benefit all local businesses.

2.17 The government has also listened to local authority concerns, and is already taking forward work to reduce the number of appeals and the risk they pose for the certainty of local authority funding. A system of redistribution will continue under 100% retention, and local authorities will continue to be protected from the loss of a large business in their area through a safety net.

2.18 The government will consult on the implementation of 100% business rate retention in summer 2016.

How business rates raise revenue

2.19 The discussion paper sought views on whether business rates should be more responsive to wider economic changes in the economy. In particular, views were sought on the uprating of the tax, and the frequency of revaluations.

Box 2.C: 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?

Stakeholders' views - Indexation

2.20 Most business respondents suggested that if business rates are uprated by inflation, then the indexation should be in line with the CPI. This was a more important issue for larger businesses.

2.21 Local authorities highlighted this would have to be considered in the context of local government financing.

Stakeholders' views - Frequency of revaluations

2.22 The majority of businesses wanted more frequent revaluations. Businesses realised this would not necessarily lead to lower bills for many ratepayers even if rateable values decreased, but they felt this would make the system more responsive to relative changes in rent and fairer as a result. Some believed that annual revaluations should be the ultimate goal, but a 3 yearly revaluation was felt to be the most sensible time-period.

2.23 There were a handful of notable exceptions who felt that the current 5 year period gave firms greater certainty to plan and invest. While support for the existing 5 year system was concentrated amongst manufacturers and heavy industry, there was support for more frequent revaluations from across all sectors of the business community, including most manufacturers who responded in an individual capacity.

2.24 However, most local authorities were concerned that more frequent revaluations would increase the uncertainty of their revenue stream. Some local authorities also expressed concerns that more frequent revaluations would increase the number of appeals.

Stakeholders' views – administration of business rates

2.25 Business groups also suggested that the administration of businesses should be simplified to make greater use of modern technology. This was seen as a particular issue for businesses that operate across multiple local authority areas with differing billing systems.

Government response

2.26 The government has considered the views for and against changing the current uprating of business rates. The government has ruled out removing indexation between revaluations, which is essential to ensure revenues remain constant in real terms to fund public services.

2.27 The government has also considered calls to switch the indexation of business rates. The government has decided to cut business rates for rate paying businesses by switching the annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI, from April 2020. This is in line with the Government's previous commitment to consider moving the indexation of indirect taxes from RPI once fiscal consolidation is complete.

It strikes the right balance between fiscal consolidation, certainty for local authorities and support for businesses. This represents a business rates cut every year from 2020.

2.28 The government will also modernise the administration of business rates to revalue properties more frequently and make it easier for businesses to pay the taxes that are due.

2.29 The government will aim to introduce more frequent business rate revaluations at least every three years and has published a discussion paper outlining options on how to achieve this to support both businesses and the stability of local authority funding.

2.30 The government will transform business rates billing and collection. By 2022, local authority business rate systems will be linked to HMRC digital tax accounts so that businesses can manage their rates bills in one place alongside other taxes. As a first step, Government will work with local authorities across England to standardise business rate bills and ensure ratepayers have the option to receive and pay bills online by April 2017. In addition, local authorities will make explanatory note available online, end multi-year billing and introduce an online bills calculator.

Who pays rates

2.31 The discussion paper looked at a number of different aspects to who pays rates, and sought views on evidence on how business rates impact different groups, how to evaluate the impact of reliefs and exemptions, and whether business rates should be reformed to treat property improvements and plant and machinery differently.

Box 2.D: 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?

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?

Stakeholders' views - ability to pay

2.32 Most respondents wanted a cut in business rates for their businesses. There was widest support for continuing support for small businesses. Many business groups favoured taking properties with a rateable value below £12,000 out of business rates all together and some proposed a business rates allowance for small businesses which could be applied to a business's total property portfolio.

2.33 Opinions were split on how and whether business rates could better take into account the circumstances of individual businesses. Large retailers were in favour of calculating rates based on GVA, either fully or by applying different rates to different sectors. A small number of responses also enquired about the possibility of increasing the number of tax bands.

2.34 However, most manufacturers and heavy industrialists believed a rent based system already reflected ability to pay. Many responses focused on making the system more responsive, be that through changes to indexation or the frequency of revaluations, to ensure it more fairly reflected a business' ability to pay.

2.35 Local authorities were mixed. Some local authorities felt that tailoring rates for particular sectors would produce greater uncertainty for their revenue flow.

Stakeholders' views - reliefs and exemptions

2.36 There was a range of views on which reliefs should be continued, removed or increased. Some local authorities also argued they were better placed to determine what support businesses in their area needed, and they believed devolving either relief setting, or rate setting, powers would achieve better outcomes.

2.37 The majority of respondents who mentioned the issue felt that empty property rate relief should be retained, or extended. They felt empty rates acted as a barrier to investment in property and were unfair on landlords unable to let their property due to circumstances beyond their control.

2.38 Many respondents felt that transitional relief following a revaluation complicated the system and further reduced the responsiveness of the tax. Most were more sanguine about the benefits of transitional relief for those facing upward pressure on their bills. There was some discussion on how an upward transitional relief scheme should be funded, with some in favour of a supplement on businesses in place of downward transitional tapering.

2.39 Charities and their representatives highlighted the importance of the charity relief in helping them to achieve their good work, and they called for the continuation of this relief and for it to become 100% mandatory. However, a small number of business respondents were keen to limit or reduce charity relief in order to prevent distorting the high street rental market.

Stakeholders' views – property improvements

2.40 Many respondents called for plant and machinery, energy efficiency improvements and other investments, to be exempt from business rates. Some were more specific in what they believed should be exempt, arguing for the removal of energy efficiency improvements or compliance based improvements. One respondent opposed removing plant and machinery if the cost came at the expense of small and medium sized businesses.

2.41 However local authorities were generally against removing plant and machinery or providing reliefs for certain types of property improvement because it would reduce their business rates revenues. Many felt that the tax system already incentivised investments through the annual investment allowance. Others argued that rates were based on rents, and plant and machinery should be included if it increases a property's rental value.

Government response

2.42 The government has listened to businesses concerns regarding the burden of business rates and has decided to cut the burden on ratepayers by £6.7bn over the next five years. Business rates on all properties will be cut. However, the government recognises that business rates represent a higher fixed cost for small businesses. Therefore, the government will cut business rates for half of all properties – 900,000 smaller properties – from 1 April 2017. The government will:

- permanently double Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses. Businesses with a property with a rateable value of £12,000 and below will receive 100% relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all - a saving worth up to £5,900 in 2017-18. An additional 50,000 will benefit from tapered relief
- increase the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate. This will reduce business rates for many small businesses – including some high street shop

2.43 From April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI to be consistent with the main measure of inflation. This represents a business rates cut every year from 2020.

2.44 The government carefully considered the case for exempting all small properties with a rateable value below £12,000 from business rates. However, removing all small properties would be a poorly targeted way of supporting the smallest businesses as many larger companies occupy multiple low value properties, such as billboards and telephone masts. Therefore, the government decided that a more targeted way to support small businesses was through expanding SBRR to provide a permanent 100% relief to properties with a rateable value of £12,000 or below.

2.45 The government also considered proposals for a small business rates allowance. However, at present it is not possible to introduce an allowance as local authorities do not hold information on a business's total property portfolio in order to administer and police such a scheme. However, once local authority business rate systems are linked to HMRC digital tax accounts the government will consider the feasibility of replacing SBRR with a business rates allowance for small businesses. This would be applied to a business's total property portfolio across local authority areas allowing businesses that grow and acquire more property to benefit from relief.

2.46 The government has carefully considered the arguments in favour of various reliefs and has considered the case for treating some sectors differently to others. The government believes that rental value is a well-established basis for the tax and is an effective reflection of a business' ability to pay. To ensure consistency, the government has decided against introducing different tax treatments for different sectors, ensuring they are treated equally.

2.47 The government believes that where plant and machinery would be reflected in a property's rental value, it should continue to be reflected in a property's rateable value. The government has carefully considered the case for exempting plant and machinery from business rates to boost investment, and has decided that this would be too costly. The government also believes that exempting new plant and machinery investments from business rates would create complexity and unfairness within the system. There are fundamental operational challenges to delivery which would impact on the fairness of the tax and accuracy of billing. In addition, identical properties could be liable for very different levels of business rates depending on when plant and machinery had been added to the property. The government will continue to incentivise investment through, better targeted measures, such as the Annual Investment allowance and Research and Development (R&D) Tax credits.

2.48 The government has also considered stakeholders representations on empty property relief and charity relief and has decided to maintain support at its current levels.

2.49 The government will bring forward proposals for the multiplier and transitional reliefs for the 2017 revaluation later this year.

Next steps

2.50 The government will legislate the permanent doubling of SBRR and the change in indexation by primary legislation at the earliest opportunity. Raising the thresholds of SBRR and the standard business rates multiplier will be legislated by secondary legislation later this year.

2.51 Alongside this summary of responses document the government has published a discussion paper outlining options on how to deliver more frequent revaluations. Stakeholders can submit written responses by Friday 8 July 2016.

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 will increased local retention of business rate revenue have on business growth? What will 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 How could investment in plant and machinery, energy efficiency improvements or other similar property improvements be treated by the business rates system?

15 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?

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