HM Government

Business rates: delivering more frequent revaluations:

summary of responses

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Introduction

1.1 Business rates currently raise £23.9 billion in England annually and act as an important source of funding for local services. They are an annual tax on non-domestic property. A property's business rates bill is determined by its rateable value, which is its estimated open market rental value on a set date. This is assessed by the Valuation Office Agency (VOA) in England, independently of government.

1.2 Revaluation is the review of the rateable values of all business and other non-domestic property in England at a particular point in time. Revaluation is done to maintain fairness in the system by redistributing the total amount payable in business rates, reflecting changes in the property market. At revaluation the business rates multipliers are adjusted to keep total revenue from business rates at the same level. It currently takes place every 5 years.

1.3 Business rate bills are calculated using specific valuations, rather than a banded system. This means it is important for rateable values to be regularly updated through revaluations to ensure bills stay accurate and fair.

1.4 The cyclical nature of the rental market, and infrequent cycle of revaluations, can lead to significant changes to rateable values at revaluation, creating uncertainty for ratepayers. It can also mean that the bills which businesses pay do not reflect current economic conditions.

1.5 Autumn Budget 2017 announced that the government would reform the revaluation cycle by increasing the frequency of valuations to every three years following the next revaluation. This improves the fairness of the business rates system as bills more accurately reflect properties' current rental value and relative changes in rents.

1.6 At Spring Statement 2018 the Chancellor announced that the next revaluation would be brought forward by one year to 2021, 4 years after the last revaluation, so that ratepayers can benefit from three-year revaluations at the earliest point. It will be based on market rental values at 1 April 2019.

1.7 The VOA will continue to assess the rateable values of non-domestic properties for business rates. In 2016 the government issued a discussion paper on delivering more frequent revaluations. Respondents to the paper favoured continuing with VOA-led valuations. The government has decided not to introduce self-assessment or a formula model at this time.

1.8 More frequent revaluations forms part of wider reforms to support ratepayers and improve the fairness of the business rates system.

1.9 Autumn Budget 2017 also announced that the government would:

- bring forward the planned switch in the indexation of business rates from the Retail Price Index (RPI) to the Consumer Price Index (CPI) by two years to 2018. This represents a cut in business rates every year, benefitting all ratepayers. Bringing forward the switch is worth £2.3 billion over the next 5 years, and in total the switch to CPI is worth £4.1 billion by 2023. This grows significantly thereafter
- legislate retrospectively to address the so-called 'staircase tax', to enable affected ratepayers to ask the VOA to recalculate property valuations so that bills can be reinstated and backdated to April 2010. This includes reinstating Small Business Rate Relief for ratepayers who lost it as a result of the Court ruling[1]
- continue the £1,000 business rates discount for pubs with a rateable value up to £100,000 for one more year

1.10 At Spring Budget 2017, the government announced a £435 million package to support businesses facing the steepest increases in bills following the 2017 revaluation. This includes £110 million to support 16,000 small businesses, and a £300 million discretionary fund to allow local authorities to help individual hard cases in their local area. This is on top of the £3.6 billion transitional relief scheme.

1.11 These measures follow major reforms announced at Budget 2016 costing around £9 billion by the end of the parliament, providing support for all ratepayers. They include:

- making 100% small business rate relief permanent and increasing the threshold of the relief from April 2017, so that 600,000 of the smallest businesses will not pay business rates again
- increasing the threshold for the standard multiplier to £51,000 from April 2017, taking 250,000 properties out of the higher rate of business rates

1.12 Budget 2016 also announced that local authority business rate systems will be linked to HMRC digital tax accounts by 2022. The government will delay implementation to after the start of the three-year revaluation cycle from 2024, and will aim to implement the system at the earliest opportunity thereafter.

1.13 In addition, the government is moving to greater local government business rates retention. In 2020-21 a number of central government grants will end to allow local authorities to keep more of the business rates that they collect locally. The government aims to increase the level of retention from the current 50% to at least 75% in 2020-21.

1.14 Separately the government is reviewing the wider taxation of the digital economy. This includes ensuring international corporate tax rules deliver fair results across different businesses and that sellers operating through online marketplaces pay the right amount of VAT. The government will see what reforms can be achieved on taxing the digital economy before considering

[1] Woolway (VO) v Mazars [2015] UKSC 53

the implications for the wider business tax system to ensure all businesses make a fair contribution to the public finances.

1.15 The VOA will continue to work with local authorities, business and rating agents as part of the move to more frequent revaluations.

Chapter 2

Summary of responses

The discussion paper

2.1 The government published a discussion paper in March 2016 seeking views from stakeholders on a number of important areas as it began to consider how more frequent revaluations could be implemented. The discussion paper covered:

- more frequent revaluations under the current system
- a self-assessment option
- a formula option

2.2 The government is very grateful for the range and level of responses received. In total, the review received 96 responses, of which:

- 41 came from local authorities, the Local Government Association and local authority partnerships
- 32 came from businesses and business groups
- 23 came from rating agents and property consultants

Revaluations under the current system

2.3 The current system requires the VOA to assess the rateable values of non-domestic properties for non-domestic rates, also known as business rates. The government sought views on the VOA undertaking more frequent revaluations.

2.4 Stakeholders were asked for their views on the following points:

Box 2.A: Discussion points on delivering more frequent revaluations under the current system

- particular stages of the valuation process where reforms would be needed to deliver more frequent revaluations
- 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

Stakeholders' views

2.5 Stakeholders generally argued that more frequent revaluations would make valuations fairer and more closely aligned to the market. A few businesses noted it would create uncertainty for them, complicate the system, and potentially lead to more reliance on agents.

2.6 There was strong support for more frequent revaluations by the VOA, particularly from business groups and rating agents.

2.7 Some respondents noted that there was a risk of there not being enough qualified surveyors to carry out more frequent revaluations if they were implemented either through the VOA or self-assessment.

2.8 Local authorities were mainly concerned that the current system would struggle to carry out more frequent revaluations unless the number of outstanding appeals was reduced. They recognised that if appeals were resolved faster this could free up resources and allow them to be redirected towards implementing more frequent revaluations. Some noted continuing with the current tried and tested approach was the least risky option.

2.9 Several local authorities were concerned about the impact of more frequent revaluation on the stability of local government finance, particularly in the context of moving to greater rates retention, however, others argued it would allow them to benefit more accurately from local rates growth.

2.10 Many respondents argued that more frequent revaluations would reduce the incentive to appeal because valuations would be closer to the market and live for a shorter time. Some stakeholders also acknowledged that the new Check, Challenge, Appeal (CCA) system should help to reduce the volume of appeals.

2.11 Most respondents suggested reforms that could help to make more frequent revaluations by the VOA possible. This included reducing the length of the AVD[1] from two years to one year, keeping the transitional relief scheme the same every cycle, better collecting and sharing of rental data, investing in new technology, investment in the VOA more broadly, and better use of VOA resources.

2.12 There were respondents across all three stakeholder groups suggesting removing all those businesses under the Small Business Rate Relief (SBRR) threshold from valuations to free up VOA resources. Instead these ratepayers

[1] Rateable values reflect open market rental values at a fixed date two years prior to the new Rating List coming into force. This is known as the 'antecedent valuation date' (AVD). For example, for the 2017 Compiled Lists, which came into effect on 1 April 2017, the AVD is 1 April 2015.

could use a form of self-declaration with options to update property changes.

A self-assessment option

2.13 The government sought views on a self-assessment system. In particular, stakeholders were asked for their views on the following discussion points:

Box 2.B: Discussion points on a self-assessment option

- 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 small businesses or other ratepayers for whom self-assessment could be particularly challenging

Stakeholders' views

2.14 Most respondents were concerned that a self-assessment system could impose additional costs and burdens on businesses. Many made the point that while larger businesses would be able to bear this, it would be particularly felt by small and medium-sized businesses. There was however the suggestion by a few business groups that a simplified approach might be feasible for the smallest businesses, or that ratepayers could be compensated through a reduction in bills.

2.15 Some respondents noted that self-assessment had been shown to work for other taxes. However, most stakeholders felt that designing an effective compliance regime would be challenging given that calculating liability for business rates, namely, valuation, is much more subjective than calculating liability for many other taxes. Some suggested that self-assessment would create an incentive for ratepayers to undervalue their property to reduce their non-domestic rates bill. This incentive would be fundamentally unfair on those who would face a business rates bill increase.

2.16 Some respondents noted that changing the VOA's main function from valuation to compliance, while shifting the burden of valuation to ratepayers, would be an inefficient use of resources.

2.17 Some local authorities felt that self-assessment could be workable, especially if it were to significantly reduce the incentive to appeal by giving ratepayers a much bigger role in valuations.

A formula option

2.18 The government welcomed views on whether a formula-based approach to delivering more frequent revaluations would be viable. Stakeholders were asked for their views on the following discussion points:

Box 2.C: Discussion points on a formula option

- 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

Stakeholders' views

2.19 There was very little support for a formula option, with many respondents claiming that it would be impractical and create unfairness. Most rating agents highlighted that a formula approach would be unworkable: to produce reasonably accurate valuations, the formula would need to take into account all details of a property and would therefore be complex, but this would make it very difficult to navigate for ratepayers. Some respondents noted that categorising properties into valuation bands would be unacceptable.

2.20 Many businesses and rating agents noted that given the rate of tax, small changes to valuations could result in large changes in bills, so it was important to keep valuations accurate and to avoid simplifying them.

2.21 In general, many respondents argued that formula-based valuations would go against the aim of more frequent revaluations of aligning rates bills more closely to market values.

2.22 Several local authorities noted that a formula option was the most transparent and simple, and would provide increased stability and certainty for local government funding. However, they accepted it would not be the fairest approach.

2.23 Some local authorities suggested that a combination of a self-assessment and a formula approach could be workable and beneficial to tailor to properties of different sizes and in different sectors.

2.24 Some business groups and local authorities considered that a formula option could serve as a feasible approach for some small businesses, notably those with a rateable value below £12,000. Given they have no tax liability, it was argued that it would not matter if their rateable value was not precisely correct.

Government response

2.25 Feedback from stakeholders showed that there was a strong preference for the VOA to continue to produce valuations, as it does under the current system.

2.26 Respondents felt that a self-assessment approach was likely to be burdensome for ratepayers, particularly small businesses, and would impose additional costs. Many respondents were of the view that a self-assessed approach might result in unfairness between ratepayers as it would be difficult to ensure that the rateable values are consistent.

2.27 Stakeholders were concerned that a formula-based option would not provide bespoke valuations, which was important to them given the tax rate of business rates, and would create many winners and losers.

2.28 The government therefore decided to move to a three-yearly revaluation cycle with the VOA continuing to assess the rateable values, and not to pursue the self-assessment and formula-based options at this stage.

2.29 To ensure ratepayers benefit from more frequent revaluations at the earliest point, the government will bring forward the next revaluation by one year to 2021, 4 years after the last revaluation. After this, three-year revaluations will take effect in 2024.

2.30 The government will ensure at the next spending review that the VOA is sufficiently funded to continue to carry out high quality valuations. In addition, efficient management of appeals will support the implementation of three-year revaluations. Check, Challenge, Appeal (CCA), which came into effect on 1 April 2017, is designed to improve the business rates appeals system by uncovering evidence early and encouraging the resolution of issues before formal appeal, therefore resolving cases more quickly. By requiring the detail about issues to be presented up front, the system allows the VOA to handle work more efficiently and reduces the number of speculative appeals that caused delays under the previous system.

2.31 Budget 2016 announced that local authority business rate systems will be linked to HMRC digital tax accounts by 2022. However, the government will delay implementation until after 2024 to prioritise the delivery of the next revaluation one year earlier than planned, and the move to three-year revaluations. The government will aim to implement this new business rate digital system at the earliest opportunity after the start of the three-year revaluation cycle from 2024.

The valuation process

2.32 The VOA collects information from ratepayers as necessary to carry out high quality valuations. The VOA will continue with this approach to deliver three-year revaluations, for example by using the Rental and Lease Details (RALD) service. Currently the VOA may, in line with the legislation, backdate changes to rateable values for up to 6 years. The government will consider the implications of more frequent revaluations on the role and length of backdating.

2.33 Rateable values reflect open market rental values at a fixed date two years prior to the new Rating List coming into force. This is known as the 'antecedent valuation date' (AVD). For example, for the 2017 Compiled Lists, which came into effect on 1 April 2017, the AVD is 1 April 2015.

2.34 Some respondents to the discussion paper suggested that the two-year period of the AVD could be reduced to implement more frequent revaluations. The government will continue to consider the approach to the AVD length as part of the transition to three-year revaluations. For the 2021 revaluation, the VOA will continue to use an AVD length of two years, that is, the revaluation will be based on the rental market on 1 April 2019.

2.35 Transitional Relief is a scheme to protect ratepayers from large increases in the payment of business rates arising from revaluations. It involves restricting increases and decreases in rates payable to set percentages. This means that changes to bills are phased in gradually. The government will continue to set out the design of the scheme at future revaluations.

2.36 The VOA will continue to work with local authorities, businesses and rating agents as part of the move to more frequent revaluations.