HM Treasury

Department for Communities and Local Government

Administration of business rates in England:

discussion paper

April 2014

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Foreword

Our priority for this Parliament is to deliver a responsible economic recovery and sound public finances that will underpin long term, sustainable growth. We have to reduce the deficit to deal with our debts, help hardworking people to be more financially secure, and support businesses to create more jobs.

We want to see more businesses investing and helping our economy to grow. That is why we have implemented a range of policies to make the UK the best place in Europe to start, finance and grow a business. This includes making the tax system simpler. We believe tax should be easy to understand and to comply with, so that businesses spend less time on their tax affairs and more time getting on with what they do best.

Our plan is working: the economy is growing, the deficit is falling and 1.7 million private sector jobs have been created since early 2010. The biggest risk to the economic recovery would be to abandon that plan.

At the Autumn Statement 2013, the Chancellor of the Exchequer took action to reduce the burden of business rates in England, a tax based on rental property values, paid on nearly 1.8 million non-domestic properties. The government recognises that business rates represent a fixed cost for businesses which can be more burdensome during times of economic difficulties. We also recognise that the administration of business rates can be improved. That is why we committed to resolve 95% of appeals cases outstanding as at 30 September 2013 by July 2015 and we consulted on reforms to the business rates appeals process.

The next step is to improve the business rates system in England so that it works better in the 21st century. We want to find ways to make the business rates system simpler, more transparent and more responsive to economic circumstances. This paper summarises how the business rates system works and opens up a discussion with a view to reforming the system after the next revaluation in April 2017.

We would like to hear views on how to achieve this from as many people as possible – ratepayers, their agents, their representatives, local authorities and the rating profession – in response to the questions posed in this paper.

David Gauke MP
Exchequer Secretary to the Treasury

Brandon Lewis MP
Parliamentary Under Secretary of State for Communities and Local Government

1 Introduction

1.1 At Autumn Statement 2013, the government took decisive action to reduce the burden of business rates for all ratepayers in England, announcing the largest package of support in 20 years. The government also committed to improve the appeals system, significantly reduce outstanding appeals cases and to discuss with business options for longer term administrative reform of business rates in England after the next revaluation of non-domestic properties in 2017.

1.2 This discussion paper is the next step in the process. At this stage, the government is not proposing reforms; it is seeking ideas and potential solutions. This paper does not set out policy proposals but asks questions in order to open up a discussion.

Scope of the discussion

1.3 The government believes that business rates have an important role to play as part of a fair and transparent tax system. Business rates support the long term stability of the economy by providing sustainable tax revenues to fund public services and by raising revenue in a way that is less distortionary than many other taxes.[1]

1.4 The government set out its intentions for this review of business rates administration in terms of reference published in February 2014.[2] The review will consider the way in which the business rates system in England is administered by the Valuation Office Agency and local authorities, with a view to strengthening its responsiveness to changes in property values and its simplicity and transparency for business ratepayers in England.[3] This includes considering the following areas, covered in this paper:

- administration of billing and collection of business rates by local authorities, including the administrative application of reliefs and exemptions; and of valuation by the Valuation Office Agency, including the scope for improvements in communication and the exchange of information between ratepayers, the Valuation Office Agency and local authorities
- circumstances under which a business rates liability can be backdated
- changes to valuation methods, consistent with the principle that business rates are based on property rental values and that the rates retention system rewards local government for growth in rates collected
- frequency of revaluations to enable tax assessments to be based on up-to-date property values

1.5 In considering possible changes to the business rates system to be made after 2017, the review will balance the need for any system to deliver fairness, stability and predictability to ratepayers. The government will consider responses in line with the following principles:

[1] http://www.oecd-ilibrary.org/taxation/tax-policy-reform-and-economic-growth_9789264091085-en

[2] Review of business rates administration – terms of reference, written ministerial statement, 13 February 2014.

[3] Business rates are devolved; this paper covers administration of business rates in England only, not in Scotland, Wales or Northern Ireland.

- business rates remain a stable and sustainable tax used to fund local services, maintaining aggregate tax yield following any reform
- business rates are efficient and continue to provide local incentives to promote growth
- the financial autonomy of local authorities delivered through the implementation of the business rates retention scheme on 1 April 2013 is preserved
- business rates are collected in a fair way with a collection and appeals process that is fair and transparent
- business rates are simpler to understand and easier to comply with, minimising the administrative burden on small businesses in particular

About this discussion paper

1.6 The government is asking questions of ratepayers as it begins to develop options for change. It wants to hear views on the issues raised in this paper and on other aspects of the administration of the system so that, over the coming months, it can develop proposals for longer term reform.

1.7 The remainder of this paper is set out as follows:

- Chapter 2 describes the business rates system in England and how it is run
- Chapter 3 describes 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 used), inviting stakeholders to provide views and suggest improvements
- Chapter 4 summarises the questions that the government is asking of stakeholders

How to contribute to the discussion

1.8 The government is seeking ideas and views in response to the questions set out in this paper from ratepayers in all sectors, their agents, their representatives and from local authorities who administer billing and collection. The government would also welcome suggested solutions to any administrative issues that are in scope of the review but not explicitly listed in this paper.

1.9 A team from across the Treasury, the Department for Communities and Local Government and the Valuation Office Agency will consider written submissions and research provided by respondents. The team is also available to meet with respondents in order to gather a broad range of views and to discuss these issues in person.

1.10 Responses to this paper are requested by 6 June 2014 and should be sent by email to the review team using the following address: businessrates.review@hmtreasury.gsi.gov.uk.

2 The business rates system in England

2.1 The origins of the current business rates system can be traced back over 400 years. Current features of the system – including that it is a tax based on property values, its appeals processes and its link to local government financing – have developed over time. The predecessor to the national 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. The current non-domestic rates system – commonly known as business rates – was introduced in 1990.

2.2 Business rates are a tax based on property values and help pay for local services. In England, business rates raised around £22 billion in 2012-13. They are charged on all non-domestic properties (e.g. shops, offices and factories) that do not qualify for an exemption.

2.3 There are nearly 1.8 million properties liable for business rates in England.[1] Rates are normally payable by occupiers of premises, rather than owners. However, where properties are empty, the property owner may be liable for business rates.

2.4 In considering who bears the cost of business rates, some studies have suggested that this changes over time. In the short term, the tenant faces the cost because they must pay the bill. This also means that they benefit from any temporary reliefs applied to that bill. However, in the medium to long term with sustained reliefs, the ability of tenants to pay more rent for properties as rates are reduced may be reflected in rental values, thus benefiting landlords.[2]

2.5 A business rates bill is worked out by:

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

2.6 The rateable value represents the open market annual rental value of a property at a set point in time. This means the rent the property would let for on the valuation date (2 years before the rateable value comes into effect), if it was being offered on the open market. There are 2 multipliers: the small business rates multiplier and the national multiplier. The national multiplier is higher as it includes a supplement to pay for small business rate relief.[3] The small business rates multiplier generally increases each year in line with the increase in the Retail Price Index (RPI) measure of inflation. In 2014-15, this increase will be capped at 2%.

2.7 There are a number of relief schemes available which reduce business rates bills for some ratepayers. Local authorities are also able to offer discretionary reliefs. Transitional relief is available to reduce the impact of any significant increases in rateable value for ratepayers and is currently funded by limiting reductions in bills. Transitional relief has always come at a cost to the Exchequer.

[1] Figures are as at September 2013 and can be found here: http://www.Valuation Office Agency.gov.uk/corporate/_downloads/xls/131219_Table3.xls

[2] See S. Bond, K. Denny, J. Hall and W. McCluskey, 'Who pays business rates?', Fiscal Studies, 1996, 17(1), 19---35, http://www.ifs.org.uk/publications/156

[3] Non-domestic multiplier for 2014-15: 48.2p; small business multiplier for 2014-15: 47.1p. The non-domestic multiplier includes a supplement to pay for the cost of the permanent part of the Small Business Rate Relief (SBRR). As a result of changes to this supplement, the non-domestic multiplier will increase by slightly more than 2% in 2014-15.

Box 2.A: The business rates system in numbers

326 billing authorities

1.787 million properties in England as at September 2013, valued separately at each revaluation

£57 billion total rateable value of non-domestic properties in England[4]

20% of properties in England accounted for around **80%** of total rateable value as at March 2013[5]

Normally **5 years** between revaluations

2 years between the valuation date and the date the revaluation comes into effect

Around **£22 billion** raised in England in 2012-13 to fund local services

2% cap to increases in business rates bills in 2014-15[6]

Box 2.B: What the public bodies involved in business rates in England do

HM Treasury – the UK's economics and finance ministry. It is responsible for overseeing the government's tax policy including business rates and for raising tax revenue to pay for public services.

Department for Communities and Local Government (DCLG) – responsible for business rates policy and legislation in England, and the local government finance system more generally. DCLG funds the business rates and council tax functions of the Valuation Office Agency in England.

Billing authorities – there are 326 billing authorities in England. The billing authority is the local council or unitary authority that is responsible for the calculation, collection and enforcement of business rates bills. As part of this, it makes decisions on the eligibility of ratepayers for mandatory relief, and has discretion to give further reliefs based on local circumstances.

Valuation Office Agency – an executive agency of HM Revenue and Customs. It is responsible for valuing non-domestic property and setting a property's rateable value, on which business rates are payable. It maintains a rating list of all non-domestic properties in England.

Valuation Tribunal for England – an independent, free tribunal service which handles appeals from business ratepayers when they do not agree with the decisions of the valuation officers. Administration is carried out by the **Valuation Tribunal Service**.

[4] http://www.Valuation Office Agency.gov.uk/corporate/_downloads/xls/131219_Table3.xls

[5] http://www.Valuation Office Agency.gov.uk/corporate/_downloads/xls/RV-by-Band.xls

[6] The non-domestic multiplier includes a supplement to pay for the cost of the permanent part of the Small Business Rate Relief (SBRR). As a result of changes to this supplement, the non-domestic multiplier will increase by slightly more than 2 per cent in 2014-15.

3 Questions about reform of the administration of business rates in England after 2017

3.1 This paper invites ratepayers to share their views with the government about how the administration of the current business rates system can be improved. This chapter summarises how the system works and sets out what longer term administrative reform will seek to address.

3.2 The government is aware that there are different views held by ratepayers and their representatives about the business rates system and how it is run. That is why it is opening up this discussion and wants to know more about what ratepayers think about the issues raised in this section.

3.3 This review is one of the steps that the government has taken to address stakeholder concerns with the business rates system. These include the Autumn Statement commitments to resolve 95% of appeals outstanding as at 30 September 2013 by July 2015, as well as to consult on proposed reforms to the business rates appeal process.[1] The appeals consultation closed on 3 March and stakeholder responses to that consultation will also be taken into account within the broader context of this review.

How property is valued

Current system

3.4 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 rent for which it is estimated a property might be let from year to year at a set date.[2]

3.5 For the vast majority of properties, including offices, shops, warehouses, pubs and petrol filling stations, rateable value is based on actual rents being paid by occupiers on similar properties in the locality. The advantage of basing the tax on rental values is that market-rent is a common and actual currency for most businesses.

3.6 To arrive at a rateable value for most properties, the Valuation Office Agency collects and analyses data on rents paid. It obtains lease and rent details from occupiers, and supplements these with other market information. Following further analysis and adjustments, it arrives at a market-rent. The Valuation Office Agency then groups together types of properties into 'schemes' that reflect their type, location and characteristics. Properties are then valued to produce a rateable value that reflects the rental value at a set date.

[1] Checking and challenging your rateable value (December 2013).

[2] It is assumed that the tenancy begins on the set valuation date, that the property is in a reasonable state of repair and that the tenant will undertake to pay all the usual rates and taxes and will keep the property in repair.

3.7 This approach can be varied depending on the precise nature of the property. For example, the approach to setting the rateable values for public houses adopted by the Valuation Office Agency reflects the actual practice in the market by both landlord-owners and publicans, together with their surveyors, when they agree actual rents. In simple terms, rents for pubs are determined by the prospect for trade, and rateable values follow this approach. This methodology has been agreed with the British Beer and Pub Association (BPRA) and looks at the 'fair maintainable trade' of the property, as well as facilities and features that are likely to influence the trading potential either positively or negatively. To maintain fairness throughout the rating system, all rateable values are still based on the market at the standard valuation date.

3.8 For properties that are not normally let, or those that cannot easily be compared with other properties, alternative methods of arriving at a rateable value are used. In these cases, properties are valued with reference to receipts and expenditure or using the contractors basis of valuation:

- receipts and expenditure – rateable value is set with reference to a business' receipts and expenditure when rental evidence is limited e.g. for hotels, caravan parks and marinas. The Valuation Office Agency estimates the sum the occupier could pay as rent to a landlord to calculate a rateable value.
- contractors basis – this basis of valuation is used for properties not normally let and where a valuation by reference to accounts is not appropriate e.g. schools, hospitals, oil refineries and steelworks. The method is based on the assumption that if a tenant wanted to rent that property, it would base the rent it paid on the annual cost of borrowing money to build an alternative property that would suit its occupational needs.

3.9 All of these valuation methods are used by valuers to determine rental values and are recognised by professional bodies including the Royal Institution of Chartered Surveyors (RICS) and the Institute of Revenues Rating and Valuation (IRRV). In many cases, the Valuation Office Agency seeks to agree the appropriate valuation approach in discussion with the industry in question or professional representatives.

Discussion points

3.10 The current system gives an individual valuation to each property, reflecting its particular characteristics and location. It can ensure that shops in a high street, for example, pay a different level of business rates depending upon whether they are located at the busier and more valuable end of the street or at the quieter and less valuable end. However, this highly individualised system can be more complicated to understand and to administer.

3.11 Some groups have proposed moving from a system where every property is valued individually to one where some or all properties are placed in a band, rather like the system for Council Tax. Some high-value or unique properties (e.g. power stations) may still have to be valued individually. The government welcomes views on this.

3.12 Banding raises a number of questions about simplification and fairness in the system. First, the large range of commercial property values, compared with, for example, domestic properties, presents questions around how many and how wide bands might be. Some groups have also suggested banding only under a certain level of rateable value or taking lower value properties out of the rating system altogether. The government would need to consider the costs of doing this, particularly the potential cost for remaining ratepayers, alongside the potential to simplify the system.

3.13 Second, banding could mean considerable differences between the bills paid by each band. The impact on ratepayers should their property move into a higher band and their bill increases would need to be considered.

3.14 Third, banding could also mean that, within a band, ratepayers in properties valued above the band average could pay less than they currently do and ratepayers below the band average more than they currently do. It would also mean that ratepayers at the top and bottom of a band on current valuations, who may currently receive significantly different bills, would pay the same amount.

3.15 Some have proposed approaches similar to those used to value property in other countries, including:

- a system of 'zones' – where all properties in a certain area are valued according to the same rateable value per square metre, which is based on an average of all rental values in that area
- indices – where, between revaluations, the rateable value of a property is adjusted each year using an index based on the rental property market
- rolling revaluations – where a proportion of all properties are valued each year, such that every property is valued over a defined period, for example, every 3 or 5 years

3.16 Whilst some of these suggestions shared with the government are aimed at securing a simpler system, they may also appear less fair than the current approach that arrives at an individual rateable value for each property. There may be practical difficulties in implementing some of these approaches, and each would have impacts on total tax revenue and the bills paid by ratepayers that the government would want to consider.

3.17 So, whilst the aim of any of these measures would be a simpler system that is easier to explain, ratepayers might find, as a result, that the valuations on which their rates bills were based, might no longer reflect individual characteristics of their properties. They might also lead to significant changes in bills at the point of implementation. These are 'trade-offs' which the government is interested to explore further.

Questions

1. The Valuation Office Agency is currently required to set rateable values that are based on the annual rental value of each property at a certain date. What are your views on this approach whilst recognising that the government believes business rates should continue to be based on rental property values?
2. What are your views on a less individualised approach to arriving at a rateable value, such as banding, a system of 'zones', indices, or rolling revaluations, as described above?
3. Moving from the current system to one where properties were placed in bands would result in bills rising for some ratepayers and falling for others. What would be considered an acceptable variance from current bills?
4. What are your views on the Valuation Office Agency's use of the 'receipts and expenditure' and 'contractors basis' valuation methods used to value property that is not normally let? What do you think about how these methods are applied?
5. Do you have any views on the way that public houses are valued?

How often property is valued

Current system

3.18 All rateable values are reassessed at a common revaluation date. Revaluations normally take place once every five years. The most recent revaluation came into effect on 1 April 2010 and is based on rateable values set at 1 April 2008. 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. More or less frequent revaluations will not reduce or increase overall business rates receipts.

3.19 The next revaluation will take place in 2017. In 2012, the government postponed the 2015 revaluation until 1 April 2017 in order to provide greater stability for businesses during a period of economic downturn.[1] That avoided local firms and local shops being faced with unexpected hikes in their business rate bills. As business rates are linked to inflation, there will be no real-terms increase in rates up to 2017. The decision will provide certainty for business to plan and invest, supporting local economic growth.

3.20 The valuation date (known as the Antecedent Valuation Date) is set 2 years before the revaluation comes into effect. This is to allow the Valuation Office Agency time to collect rental evidence, prepare valuations and consult with ratepayers. It includes 6 months for ratepayers to check their rateable value and prepare for changes to their rates bills. Although this approach ensures rateable values are based on evidence and ratepayers are given advance warning of changes to rates bills, it also means rateable values are 2 years 'out of date' before the revaluation takes effect. See Box 3.A.

[1] A written ministerial statement was published on 12 November 2012: https://www.gov.uk/government/speeches/business-rates--2

Box 3.A: How does a revaluation affect business rates bills?

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.

A revaluation does not raise any extra revenue for the government: 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.

Example

A and B are both running businesses in England. B has an office in Portsmouth and A has a shop in Hull. Since the last revaluation (five years previously), average rents paid by occupiers have fallen across the whole country. That means that at the next revaluation, the multiplier will increase to keep total business rates receipts at a similar level.

Rents at B's office have fallen a lot in the last five years and rents at A's shop have fallen by a small amount. At the next revaluation, both companies are likely to see their properties' rateable values fall. However, the rents at A's shop have fallen less than the national average, so A's business rates bill after the revaluation will be higher than before the revaluation, even though his property's rateable value has fallen. The rents at B's office have fallen by slightly more than average so B will see a small reduction in bills.

3.21 In contrast, the total amount that the government collects through business rates will change to reflect any new properties built or old properties demolished. This change takes place immediately when a property is built or demolished. A reduction in the total number of properties on the rating list does not lead to increased bills for the rest of the properties on the list. Between revaluations, a ratepayer's bill is stable and will only move broadly in line with inflation (Retail Prices Index), unless there are changes to a property that require an alteration to its rateable value.

Discussion points

3.22 The current system sees a full revaluation of all 1.8 million non-domestic properties every five years, based on rateable values set two years beforehand.

3.23 Some have proposed that more frequent revaluations would make the system fairer because rateable values would align more closely with market rents. However, more frequent revaluations might also mean more frequent changes to individuals' rates bills, arguably making the system less predictable for ratepayers. They also would not guard against potentially significant changes in rateable values reflecting movements in the market between revaluations. There could be practical difficulties in delivering more frequent revaluations, whether under the current system where each property is valued individually or using another method such as those discussed above.

3.24 Some groups have also called for the government to reduce the time allowed to prepare a revaluation from the current two years. This would ensure that the revaluation is based upon more up-to-date rental values but would allow less time to prepare rateable values and consult with business.

3.25 It is possible that changes to the frequency of revaluations could have an impact on the number of appeals made by ratepayers who are challenging decisions made about their property's rateable value. Some groups say more frequent valuations may reduce the overall number of appeals; whilst others claim that appeals would rise in number if properties were revalued more often. The government is interested to consider the impact on appeals in further detail.

Questions

6 Some ratepayers have suggested establishing annual, 2-yearly, or 3-yearly revaluations instead of the normal 5 yearly cycle. How frequently do you think the rateable value of a property should be re-assessed at a revaluation, bearing in mind possible impacts on the predictability and volatility of bills? Why?

7 Would your views change if more frequent revaluations meant:

a rates bills changed more often i.e. were less stable and less predictable than currently?

b it were necessary to use a less individualised approach to valuing property than currently which would mean that ratepayers with different rents, who at the moment pay significantly different bills, might pay the same amount?

8 Do you think ratepayers would be more, less or just as likely to appeal the rateable value of their property if revaluations were more frequent?

9 Reducing the time allowed to prepare a revaluation from the current 2 years would also reduce the time available for ratepayers to check their rateable values and prepare for changes to their rates bills. It would also mean the Valuation Office Agency would have less time to collect and analyse rental evidence to prepare valuations. How do you think this would impact ratepayers and local authorities?

10 What is your understanding of how a revaluation affects final business rates bills? Would you like to receive more information from the government on how this works?

How rates bills are set

Current system

3.26 Business rates are charged on most non-domestic properties e.g. shops, offices, pubs, warehouses and factories. Some properties are exempt from paying business rates altogether.[2]

3.27 Local authorities calculate business rates bills by multiplying a property's 'rateable value' (set by the Valuation Office Agency) by the business rates multiplier (set by central government), less any reliefs e.g. the £1,000 retail discount.[3] Billing authorities send out business rates bills to all ratepayers in their local rating list in February or March each year. These are in respect of the following tax year.

[2] Exemptions: farm buildings and land (excluding buildings used as offices or for other business activities); fish farms; places of public religious worship; buildings used for training or welfare of disabled people.

[3] Autumn Statement 2013 confirmed a new £1,000 retail discount for shops, cafes, and pubs with rateable values of less than £50,000, for 2 years from April 2014 to March 2016.

3.28 There are a number of reliefs available for certain types of property or occupation which can reduce the amount of business rates a ratepayer is liable to pay.[4] Billing authorities take into account some of these reliefs automatically when calculating bills. However, in some cases, ratepayers need to apply direct to billing authorities in order to receive reliefs.

3.29 Billing authorities' interpretations about eligibility for mandatory reliefs are bound by law, including any relevant case law. They must make their decisions on a case-by-case basis, considering factors specific to the property or location.

3.30 Alongside mandatory reliefs, legislation provides billing authorities with the power to grant discretionary reliefs, for example, hardship relief. Since 2011, authorities have been able to grant relief using their local discount powers in any circumstance they think fit. These policies and schemes will normally be agreed by local councillors and will reflect the aims and objectives of the individual local authority.

Discussion points

3.31 Some groups have said that they find it difficult to understand how reliefs are applied to bills. Others have also raised questions about whether there is sufficient awareness among ratepayers about the reliefs to which they are entitled. The government is interested to hear views from ratepayers about the application of reliefs to bills and the way in which they are administered.

Questions

11 Do you feel that you understand your rates bill? What would help you to understand it better?

12 There are a number of reliefs available for certain types of property or property use which can reduce the amount of business rates you pay. What do you think of the general level of awareness about the reliefs available?

13 What is your experience, in general, of how the reliefs system is administered?

14 Some reliefs are applied automatically to bills and some require ratepayers to request them from their local authority. What are your views on this?

15 Your business rates bill is calculated by your local authority (council). If you receive business rates relief of any kind, this should be listed on your bill. Do you have views on how the reliefs you receive are currently shown on your bill?

How business rates are collected

Current system

3.32 Business rates are a national tax that is administered locally. Prior to 2013, revenue collected through business rates by billing authorities was pooled at a national level and then re-distributed by central government to all local authorities as part of their formula grant settlement. In April 2013, the government introduced the business rates retention scheme. The aim of the scheme is to incentivise local authorities to take action to promote growth by allowing them to keep half of the business rates they collect. The other half continues to be pooled at a national level and is then reallocated to local authorities through other grants.

[4] Reliefs: Small business rates relief; Rural rate relief; Charitable rate relief; Enterprise zone relief; Transitional relief; Empty property rate relief; Reoccupation relief.

3.33 There are 326 billing authorities responsible for collecting business rates for nearly 1.8 million properties on the local rating lists. They issue bills to the occupiers (or owner of the property if unoccupied) at the start of each financial year. They may also issue revised bills during the year to reflect any changes made by the Valuation Office Agency to the rateable value of a property. Based on the 2010 list, in any one financial year, the Valuation Office Agency typically makes an additional 250,000 to 300,000 changes to the rating list in England over and above those changes made as a result of appeals.[5] This can require billing authorities to reassess the rates due in respect of the current and previous years and to issue additional bills on top of those already sent to ratepayers.

3.34 Certain properties – generally those that cross authority boundaries, such as national utilities and pipelines – are on a central list which accounts for around six per cent of rates collected. These are collected directly by the Department for Communities and Local Government and the income is reallocated to local authorities through other grants.

3.35 Ratepayers occupying more than one property receive a separate bill for each property. If these properties are spread across different billing authorities, they will also be billed by separate authorities.

3.36 The exact format of the business rates bill may vary across billing authorities as it is not prescribed in law, but the following information must be included to help ratepayers interpret their bill:

- the address and description of the property to which the notice relates
- the rateable value of the property
- the multiplier applicable i.e. the national multiplier or small business multiplier
- the period covered by the charge
- reliefs applicable
- a description of the rating system and how it works

3.37 Billing authorities mainly use one of three software suppliers to provide their billing systems. They usually issue bills in paper form, although ratepayers may ask for them to be sent to them electronically.

3.38 Ratepayers usually pay their bills by direct debit over 10 monthly instalments. As announced at Autumn Statement 2013, ratepayers may now also choose to pay bills in 12 instalments, should they wish to spread payments over a full year. It is at the discretion of billing authorities to agree alternative payment schedules with ratepayers, but the local authorities bear the financial risk of non- or late-payment of rates.

3.39 There are procedures that billing authorities are legally required to follow should a ratepayer default on their bill. They must send reminder notices where instalments have been missed, and if the outstanding bill is still not paid, billing authorities can apply to the Magistrates' Court for a liability order to allow enforcement action to be taken. In 2012-13, the average collection rate for non-domestic rates in England was 97.7%.

[5] These figures are based on the 2010 rating list and are England only. Statistics can be found in Table A2.2 here: http://www.Valuation Office Agency.gov.uk/corporate/_downloads/xls/NDR_TableA_All_2010.xls

Backdating

3.40 If the rateable value of a property changes so does the amount a ratepayer is required to pay in business rates. This can happen when:

- changes are made to a property
- the occupation of a property changes
- there are significant physical changes to the area around a property
- valuations are corrected, which may be as a result of a proposal or an appeal

3.41 It is the duty of the Valuation Office Agency to take appropriate action on changes to the rateable value of a property when they become aware of the need to do so. For example, ratepayers were faced with backdated bills when the Valuation Office Agency conducted a review of ports in 2007/8. Billing authorities are also required to notify the Valuation Office Agency of such changes. However, there is currently no legal obligation on ratepayers to inform the Valuation Office Agency or billing authority of changes that may affect the rateable value of their property.

3.42 Where the rateable value of a property increases, the occupier may be asked to pay a backdated business rates bill. Where a rateable value decreases and the reduction is backdated, the ratepayer will receive a backdated refund. If a backdated bill is issued, a ratepayer will not be asked to pay a penalty or re-pay the interest lost over the period.

3.43 The date to which a business rates bill or refund is backdated is usually the date on which the change in property value took effect. This date is determined by the Valuation Office Agency in line with legislation. Changes to rateable values can only be made within the life of the rating list, and up to one year after the next list has been compiled. For example, if an extension to a property was completed on 1 June 2010, the resultant increase in rateable value would take effect from 1 June 2010. If the alteration to the list was made in 2014, the occupier's business rates bill would be recalculated and a revised bill would be issued dating back to 1 June 2010.

3.44 Billing authorities have some flexibility in the approach they can take to collecting backdated bills, as long as they continue to pay to central government the business rates that are due.

Discussion points

3.45 Billing and collection for the majority of ratepayers is administered at a local level by billing authorities. The current system sees almost 1.8 million paper bills issued each year, not including instances of re-billing.

3.46 The government has taken steps to make other taxes easier for businesses to pay through improving digital systems. It welcomes views from ratepayers and local authorities on whether there are opportunities for modernising the collection of business rates, using digital solutions, where this would offer value for money for the taxpayer.

3.47 Ratepayers with properties in different areas in England deal with separate local authorities. Some have said that this can place extra burdens on them, particularly if bills issued by different authorities are not in the same format. The government would like to understand this better and welcomes views from ratepayers and local authorities on how to make bills clearer and easier to understand.

3.48 There is currently no obligation on ratepayers to inform the Valuation Office Agency of a material change in circumstances which can affect the value of a property, or of a new property that should be added to the rating list. This can result in ratepayers receiving backdated bills from local authorities which they did not expect. Some groups have suggested that ratepayers could be required to provide the Valuation Office Agency with updated information on their property, although others note that this could be an additional burden.

3.49 Backdated rates bills can be a burden for ratepayers. A review of ports by the Valuation Office Agency in 2007-08 lead to the backdating of business rates bills to 1 April 2005 for many port-based companies, cumulatively reaching into the millions, which the government subsequently cancelled. The government recognises that backdated bills may be unexpected and, depending on the length of time that has elapsed, may be substantial. Moreover, in such circumstances tenants may not have an opportunity to renegotiate their rent to reflect the increase in rates.

3.50 The current approach to backdating means that the window in which ratepayers may currently be subject to a backdated bill or refund covers 1 April 2010 to 1 April 2018. The government would like to understand whether this approach and the circumstances under which bills and refunds can currently be backdated raise concerns for ratepayers and local authorities.

Questions

16 Bills (demand notices) are issued to ratepayers by billing authorities. They calculate final bills by multiplying a property's rateable value as set by the Valuation Office Agency, by the business rates multiplier as set by central government, less any mandatory or discretionary reliefs, including transitional relief. What are your views on how clearly bills show the way in which a final business rates liability is calculated? How might bills be made easier to understand?

17 The government is interested to know whether the following aspects of the current system for billing and collection of business rates present issues for business ratepayers, and if so, how these might be addressed:

a. bills are usually issued to ratepayers in paper form

b. format of bills may vary across billing authorities, though core content should be the same

c. each property is separately liable for rates and so ratepayers receive a separate bill for each property they occupy

d. changes to the rateable value of a property can lead to an additional, amended bill being issued to the ratepayer

18 It can be difficult for the Valuation Office Agency to identify promptly changes to a property that may mean its rateable value should change, particularly if these changes cannot be seen from outside the property. When the change is finally identified, this can result in backdated bills for the ratepayer. To what extent do you think this is an issue for business ratepayers? What could all parties reasonably do to limit the number of situations where this happens?

19 Changes to rateable values can be made within the life of the rating list, and up to one year after the next list has been compiled. Most backdated bills or refunds are backdated to the date when the change to the rateable value of the property came into effect. What are your views on this?

How information about ratepayers and business rates is used

Current system

Information needed to set or change the rateable value of a property

3.51 In order to value a property (set a rateable value) the Valuation Office Agency needs information about the rent that occupiers pay. It gathers this by sending forms of return to almost all occupiers over the revaluation period, requesting information about their property and the rent they pay, including any incentives and similar arrangements. There is a fine for failure to complete and return the form of return.

3.52 Beyond the form of return, there is no general obligation on occupiers to provide information to the Valuation Office Agency on any changes to their property that may affect its rateable value.

Information needed to issue accurate bills and forecast business rates receipts

3.53 Local authorities are responsible for billing all ratepayers correctly and forecasting the revenue that will be brought in through business rates each year. Since they are responsible for paying refunds on business rates bills as a result of appeals, local authorities also need to estimate the amount of funding that they will need to hold back in order to cover these. To do this, they need accurate information on the identity and nature of the occupier; how the property is being used and over what period; how the property has been valued; whether the property's rateable value is being challenged; and, if so, the nature and status of that challenge. The local authority could obtain this information from the ratepayer or from the Valuation Office Agency but there is no general obligation on either party to provide this.

Discussion points

3.54 Some groups have called for a lighter-touch process to enable the Valuation Office Agency to collect information from ratepayers. However, this creates a risk that the Valuation Office Agency has less accurate or less comprehensive information on rents and, as a result, may not reflect the full range of rental evidence in its decisions on rateable value. While the Form of Return can be completed digitally at present, greater use of digital channels could be an advantage. Others suggest that the timing of the Valuation Office Agency's requests should be aligned (or combined) with annual tax returns. Currently, the Valuation Office Agency aims to send forms to occupiers at times that match how often rent reviews take place – typically every 3 to 5 years.

3.55 Some of the difficulties faced by the Valuation Office Agency under the current system relate to the amount and type of information it is able to collect from ratepayers, so that it can arrive at accurate rateable values, and how it receives that information when there is no obligation on occupiers to provide it. The government is mindful that having a duty to provide information may be viewed as a burden by businesses, although within the business tax system more broadly self-assessment, where the taxpayer is required to provide information on their tax affairs, is a common component.

3.56 The government would be interested in views from ratepayers who have considered whether they, as taxpayers, could play a greater role in the provision or gathering of information. This could make the data the Valuation Office Agency holds more accurate while reassuring ratepayers that they are being treated fairly. However, it could also result in a greater administrative burden on ratepayers.

3.57 The rental information collected by the Valuation Office Agency is not generally made available to the public. This is because the Valuation Office Agency collects and uses a wide range of unpublished data on rents, together with unregistered side agreements on matters such as rent-free periods and fit-out costs. Whilst these details may be disclosed to ratepayers during the course of discussions on appeals, or if an appeal is heard by the independent Valuation Tribunal for England, the law generally puts restrictions upon the disclosure of this information. Some have argued that full details should be made available so that ratepayers can satisfy themselves about the basis on which their rating valuations have been made. These issues were considered in the recent consultation: *Checking and Challenging your Rateable Value*.[1]

3.58 Recognising the commercially-sensitive nature of much of the information that the Valuation Office Agency holds, the government proposed that the Valuation Office Agency should make more rental information generally available than it does currently, whilst respecting commercial confidentiality. The government plans to respond to the consultation exercise shortly. More generally, the Valuation Office Agency is consulting interested parties on the format and content of the rental information that it makes publicly available, in line with the government's proposals.

Questions

20 Currently, the Valuation Office Agency collects rental information from ratepayers using forms of return sent by post. What is your experience of completing forms of return? Do you have suggestions for improving the way that you are asked to provide information to the Valuation Office Agency?

21 Do you have suggestions for improving the quality of data provided to the Valuation Office Agency, while minimising the burdens on business?

22 The Valuation Office Agency publishes data on its website that shows rateable value and floorspace.[2] What are your views on how the Valuation Office Agency could improve the data it makes available? If you had greater access to Valuation Office Agency data, how would you use it?

23 There are currently legal constraints that apply to the data which the Valuation Office Agency can share with ratepayers. Greater sharing of data could help the system run more smoothly. How do you think this could be achieved?

[1] Checking and challenging your rateable value (December 2013).

[2] www.voa.gov.uk

4 Summary of questions

How property is valued

1. The Valuation Office Agency is currently required to set rateable values that are based on the annual rental value of each property at a certain date. What are your views on this approach whilst recognising that the government believes business rates should continue to be based on rental property values?
2. What are your views on a less individualised approach to arriving at a rateable value, such as banding, a system of 'zones', indices, or rolling revaluations, as described above?
3. Moving from the current system to one where properties were placed in bands would result in bills rising for some ratepayers and falling for others. What would be considered an acceptable variance from current bills?
4. What are your views on the Valuation Office Agency's use of the 'receipts and expenditure' and 'contractors basis' valuation methods used to value property that is not normally let? What do you think about how these methods are applied?
5. Do you have any views on the way that public houses are valued?

How often property is valued

6. Some ratepayers have suggested establishing annual, 2-yearly, or 3-yearly revaluations instead of the normal 5 yearly cycle. How frequently do you think the rateable value of a property should be re-assessed at a revaluation, bearing in mind possible impacts on the predictability and volatility of bills? Why?
7. Would your views change if more frequent revaluations meant:
    a. rates bills changed more often i.e. were less stable and less predictable than currently?
    b. it were necessary to use a less individualised approach to valuing property than currently which would mean that ratepayers with different rents, who at the moment pay significantly different bills, might pay the same amount?
8. Do you think ratepayers would be more, less, or just as likely to appeal the rateable value of their property if revaluations were more frequent?
9. Reducing the time allowed to prepare a revaluation from the current 2 years would also reduce the time available for ratepayers to check their rateable values and prepare for changes to their rates bills. It would also mean the Valuation Office Agency would have less time to collect and analyse rental evidence to prepare valuations. How do you think this would impact ratepayers and local authorities?
10. What is your understanding of how a revaluation affects final business rates bills? Would you like to receive more information from the government on how this works?

How rates bills are set

11 Do you feel that you understand your rates bill? What would help you to understand it better?

12 There are a number of reliefs available for certain types of property or property use which can reduce the amount of business rates you pay. What do you think of the general level of awareness about the reliefs available?

13 What is your experience, in general, of how the reliefs system is administered?

14 Some reliefs are applied automatically to bills and some require ratepayers to request them from their local authority. What are your views on this?

15 Your business rates bill is calculated by your local authority (council). If you receive business rates relief of any kind, this should be listed on your bill. Do you have views on how the reliefs you receive are currently shown on your bill?

How business rates are collected

16 Bills (demand notices) are issued to ratepayers by billing authorities. They calculate final bills by multiplying a property's rateable value as set by the Valuation Office Agency, by the business rates multiplier as set by central government, less any mandatory or discretionary reliefs, including transitional relief. What are your views on how clearly bills show the way in which a final business rates liability is calculated? How might bills be made easier to understand?

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21 Do you have suggestions for improving the quality of data provided to the Valuation Office Agency, while minimising the burdens on business?

22 The Valuation Office Agency publishes data on its website that shows rateable value and floorspace.[1] What are your views on how the Valuation Office Agency could improve the data it makes available? If you had greater access to Valuation Office Agency data, how would you use it?

23 There are currently legal constraints that apply to the data which the Valuation Office Agency can share with ratepayers. Greater sharing of data could help the system run more smoothly. How do you think this could be achieved?

How to respond

4.1 Views on the issues and questions set out in this paper are invited from ratepayers from all sectors, their agents and their representatives. The government would also welcome views on any administrative issues in scope of the review not explicitly listed in this paper.

4.2 A joint team from HM Treasury, the Department for Communities and Local Government and the Valuation Office Agency will consider written submissions and research provided by respondents. The team will also arrange meetings over the coming months to discuss these issues further.

4.3 Responses to this paper are requested by 6 June 2014 and should be sent by email to the review team using the following address: businessrates.review@hmtreasury.gsi.gov.uk.

[1] www.voa.gov.uk

A Key business rates facts

Who pays business rates?

A.1 Of the 1.8 million properties on the rating lists in England, around 20% account for 80% of total rateable value (they have a rateable value of more than £25,000). Given that lower rateable value properties are more likely to be in receipt of business rates reliefs (such as small business rate relief and charity reliefs), this would suggest that at least 80% of total business rates bills are paid by the 20% of properties with rateable value above £25,000.

A.2 It is estimated that around 360,000 properties are not liable for rates due to the temporary doubling of the small business rate relief (SBRR), with another 180,000 receiving some relief. Others are relieved due to charities relief or empty property rate relief. The total cost of reliefs to government is estimated at around £3.4 billion in 2014-15. Certain types of property are exempt from paying business rates, including agricultural and religious buildings.

How much is paid in business rates each year?

A.3 The average annual business rates bill in 2014-15 is estimated to be £12,500. Total business rates revenue is forecast to be around £22.4 billion.

Table A.1: Total amount of business rates raised 2010-11 to 2014-15

Year	2010-11	2011-12	2012-13	2013-14 (B)	2014-15(B)
Business rates yield (£Billions)	19.3	21.0	21.8	21.7	22.4

Source: Department for Communities and Local Government National Non-Domestic Rates Returns[1]

How do the rateable values of properties in England vary?

A.4 The local rating lists for each region in England are published on the Valuation Office Agency website.[2] They list the number of properties, total rateable values and average rateable values in each region, ordered by special category (a code that groups together properties of a similar type, including a property's use).

A.5 The rating lists show that rateable values of properties vary greatly. The total rateable value of all 1.8 million properties on the list in England as at 30 September 2013 was around £57 billion. Currently, the largest rateable value is the assessment for Heathrow Airport, at almost £218 million.

[1] All years are outturn data, except where marked with a (B), where data are Budget forecasts. Business rates yield is shown net of: reliefs; allowances for losses in collection; the cost of collection; and amounts retained outside the rates retention scheme e.g. revenue from Enterprise Zones.
[2] http://www.voa.gov.uk/corporate/_downloads/xls/131219_AllTables.xls

Table A.2: Rateable value and number of properties by category (2012)

Category	No. of properties (Thousands)	Rateable Value (£Millions)
Retail	528	16,666
Offices	341	13,799
Industrial	425	11,279
Other[3]	136	2,678
Excluded[4]	324	12,291
Total	**1,754**	**56,713**

Sources: http://www.voa.gov.uk/corporate/statisticalReleases/120517_CRLFloorspaceReleaseNotes.html; http://www.voa.gov.uk/corporate/_downloads/xls/120517Table1.2.xls

A.6 The central rating list contains the rating assessments of the network property of major transport, utility and telecommunications undertakings and cross-country pipelines. There is a single aggregate rateable value shown for all the property occupied by the named ratepayer that falls within the definition in the Regulations. Any property occupied by a central list ratepayer that falls outside the definition will be shown individually in a local rating list.

A.7 Business rates for properties on the central rating list in England are paid direct to the Secretary of State for Communities and Local Government and in Wales to the Welsh Assembly.

Impact of the government's support with paying business rates in 2014-15

A.8 The Autumn Statement 2013 announced a range of measures to reduce business rates bills for ratepayers. They came into force on 1 April 2014.

- All 1.8 million properties subject to business rates will benefit from the 2% cap to the annual inflation increase
- 540,000 small businesses will benefit from small business rates relief, with 360,000 paying no rates at all
- 300,000 retail premises with rateable values of less than £50,000 will receive a £1000 discount off their business rates bill in 2014-15 and 2015-16
- 50% discount on business rates bills for 18 months for businesses re-occupying retail property that has been empty for at least a year
- 3,000 small businesses will retain small business rate relief when they take on a second property

A.9 Examples of how different businesses in England will benefit from these measures are set out in Table A.3 below.

[3] These figures are from the VOA floorspace statistics publication found here http://www.voa.gov.uk/corporate/_downloads/xls/120517Table1.2.xls. Categorisation has been done by grouping special category codes where the floorspace data met certain criteria. The 'other' category includes police stations, ambulance stations, air strips and libraries. A full list of the "other" category can be found here: http://www.voa.gov.uk/corporate/statisticalReleases/120517_CRLFloorspaceReleaseNotes.html

[4] These figures are from the VOA floorspace statistics publication found here http://www.voa.gov.uk/corporate/_downloads/xls/120517Table1.2.xls. Categorisation has been done by grouping special category codes. Some codes were excluded where the floorspace data did not meet certain criteria. This 'excluded' group includes ATMs and Beach Huts. A full list of the 'excluded' category can be found here: http://www.voa.gov.uk/corporate/statisticalReleases/120517_CRLFloorspaceReleaseNotes.html

Table A.3: Examples of how different businesses will benefit

Non-domestic property rateable value	Type of property	Support in 2014-15	% change in 2014-15 bill compared to 2013-14	Total value of Autumn Statement 2013 support in 2014-15
£5,000	Guest house	100% small business rate relief	0%	£1,190
£10,000	Small café	Small business rate relief tapering 2% cap £1,000 discount	-30.5%	£1,827
£15,000	Small shop	2% cap £1,000 discount	-12.5%	£1,075
£30,000	Pub	2% cap £1,000 discount	-4.7% [a]	£1,150
£40,000	Shop reoccupied after 1 April 2014	2% cap £1,000 discount 50% reoccupation relief	-56%	£8,420
£45,000	High street clothes shop	2% cap £1,000 discount	-2.4% [a]	£1,225
£100,000	Large shop	2% cap	2.3% [a]	£500

Source: HMT and DCLG calculations

[a] This takes account of the 2% cap to the RPI increase plus the small business supplement.

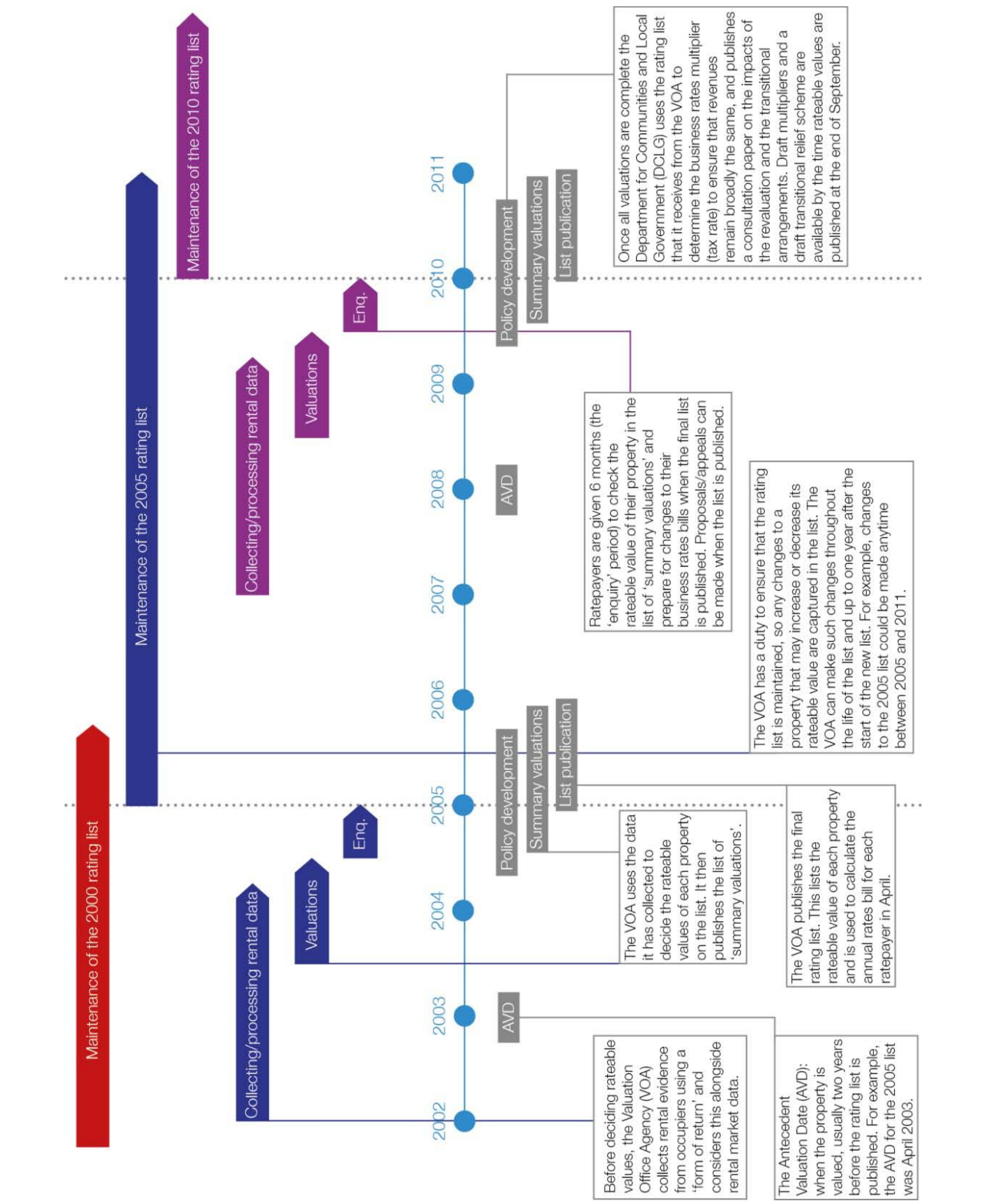
Business rates in Scotland, Wales and Northern Ireland

A.10 Business rates are devolved. Scotland and Northern Ireland have their own business rates systems and have powers to raise business rates as they wish.

A.11 Wales has its own business rates system. Many of its features are similar to the English system, although some reliefs are distinctive and there is no system of rates retention for local authorities and no transitional relief. The Welsh Assembly sets the multiplier for Wales. Currently revenues are not retained in Wales, but are redistributed to Wales as part of the way in which funding is allocated to devolved administrations. As a result of further fiscal devolution, Wales will in future retain its business rates revenues in full, with a matching reduction in the funding it receives from central government.

B Valuation timeline

Chart B.1: Valuation timeline



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