

# Factsheet: Power to specify indexation rate for non-domestic rating multipliers (Clause 5)

---

## **What is the power to specify indexation rate for non-domestic rating multipliers?**

This clause introduces a power to allow HM Treasury to change the inflation indicator applied to business rates (currently the Retail Price Index) to be consistent with the main measure of inflation used by the Government (currently the Consumer Price Index).

## **What is the policy hoping to achieve and where are we now?**

This provision would provide HM Treasury with the flexibility to determine the appropriate measure of inflation going forward, subject to a debate in the House of Commons. The change in indexation from RPI to CPI represents a rate cut every year from 2020 and would be worth £370 million to businesses in 2020-21. The benefit would grow significantly thereafter.

## **Why is legislation needed?**

The Local Government Finance Act 1988 sets out the formulae by which the chargeable amount on a property is to be calculated. This clause will amend the Act so that HM Treasury may by regulations specify the relevant index of inflation for England.

## **How do we see this working in practice?**

HM Treasury intends to make regulations to switch the indexation of business rates from RPI to the main measure of inflation, currently CPI, in 2020. These regulations would be subject to debate in the House of Commons. From that point, the new measure of inflation would be used for the annual indexation of rates.

## **Key questions & answers:**

### **Is it possible to bring forward the switch to CPI?**

- The Government intends to switch the indexation from RPI to the main measure of inflation in 2020. This was part of the £6.7 billion business rates package announced at Budget 2016 to support businesses. Applying this change from 2020 strikes the right balance between fiscal consolidation, certainty for local authorities and support for businesses.

### **Will the main measure of inflation for business rates now be fixed as CPI?**

- The Government has committed to switch the indexation of business rates to the main measure of inflation, which is currently CPI, from 2020. This Clause will allow the government to do that, through providing a power to make secondary legislation, which will be subject to Parliamentary debate and approval by the House of Commons.
- Any future changes to the indexation of business rates will be subject to debate in the House of Commons.

### **Will this impact on the amount of business rates received by local authorities?**

- We are working with local government on the proposed reforms to business rates to allow the sector to keep 100% of their rates. Part of this work will be considering how future changes to the tax itself, such as changes to indexation rate, will impact on those reforms – to ensure that the financial sustainability of local government is not affected.

- Local government's business rate income will continue to be inflation linked, and will be pegged to the main measure of inflation.

**Will a reduction of this kind benefit large businesses over small businesses as they pay the largest proportion of the tax?**

- Small businesses will benefit from this measure. Small businesses also benefit significantly from the permanent doubling and extension to Small Business Rate Relief which was announced at Budget 2016. As a result, 600,000 of the smallest business will not pay business rates at all.

**January 2017**