HM Treasury

Treasury Committee inquiry into the impact of business rates on business [HC 222]

Government response

CP 223

February 2020

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Government response

Presented to Parliament by
the Financial Secretary to the Treasury
by Command of Her Majesty

February 2020

CP 223

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ISBN 978-1-912809-99-8

PU2937

Printed in the UK by APS Group on behalf of the Controller of Her Majesty's Stationery Office

ID CS0220038498 02/20

Printed on paper containing 75% recycled fibre content minimum

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Chapter 1
Introduction

1.1 The Government welcomes the First Report of Session 2019-20 of the Treasury Committee inquiry into the impact of business rates on business (HC 222), which was published on 31 October 2019.

1.2 The Committee has made recommendations on a range of aspects of the business rates system. The Government has considered the Committee's findings and recommendations carefully in formulating its response below. In summary, this response clarifies recent trends in the business rates multiplier and total rates revenue and sets out the Government's position on reliefs, valuations and the administration of the business rates system. In this response the Government also commits to carrying out a fundamental review of business rates, producing a guide to business rates reliefs in England, and taking the Committee's recommendations into account when designing the next transitional relief scheme. It is in this context that the Government prepares for Spring Budget 2020, the fundamental review of business rates and the 2021 revaluation.

1.3 The UK Government is responsible for business rates policy in England. Business rates are devolved to Scotland, Wales and Northern Ireland. Local authorities are responsible for the collection and billing of business rates in England. The Valuation Office Agency is responsible for compiling and maintaining lists of rateable values for business rates purposes in England and Wales.

1.4 As the Committee is aware, business rates are a key source of revenue for local authorities in England, funding essential services such as adult social care and children's services. However, the Government recognises that there are concerns about the impact of the tax on ratepayers. Since Budget 2016, the Government has taken repeated action to reduce the level of business rates for all ratepayers through reforms worth £13 billion over the next five years. This includes:

- cutting the business rates bills of small retailers by one third in 2019/20
- providing a £1,500 relief for local newspaper offices
- switching the annual indexation of business rates from RPI to CPI from 2018, worth over £6 billion by 2024-25. This represents a rate cut every year, and the benefit grows significantly over time
- making 100 per cent Small Business Rate Relief (SBRR) permanent and doubling the rateable value threshold for 100 per cent relief from April 2017,

meaning more than 675,000 of the smallest businesses do not pay business rates at all

- increasing the threshold for the standard multiplier to £51,000 from April 2017
- announcing a £435 million package to support ratepayers facing the steepest rises in bills following the 2017 revaluation. This is on top of the £3.6 billion transitional relief scheme
- legislating retrospectively to address the so-called 'staircase tax' to support affected businesses, including those that lost SBRR

1.5 Looking forward, the Government will, from 1 April 2020:

- provide additional support to pubs through a new Pubs Relief
- increase the business rates retail discount to 50 per cent in 2020-21
- extend eligibility for the retail discount to cinemas and music venues
- extend the £1,500 relief for local newspaper offices to 2025

1.6 The Government is also launching a fundamental review of the business rates system. The review will consider in detail many of the issues raised by the Committee and identify options to address those concerns. Further details on the fundamental review will be announced in due course.

1.7 Below is the Government response to each section of the Committee's report. The Committee's recommendations are in italics.

Chapter 2

Overview of business rates as a tax

Recommendation:

2.1 *The growth in business rate revenue has outpaced inflation since the current system was introduced in 1990. Whilst noting that other factors have contributed to the variance, the Government should acknowledge that there has been an above inflation increase in commercial property-based taxation since its introduction in 1990 and that the revenue generated by business rates has grown as a proportion of GDP. We note below the effect that the timing of the release of the 2017 rating list and increases in the multiplier have had on increasing the level of business rates paid by business. (Paragraph 28)*

2.2 *In response to this report, the Government should explain whether it is government policy to allow the growth in business rates to outpace inflation. This is a crucial question which also requires further consideration by the Committee. This will include the consideration of the impact of reliefs. (Paragraph 29)*

2.3 *The increase in the tax rate of business rates appears to be inconsistent when compared to the UK's other corporate tax rates which are falling. The business rates multiplier has continued to increase over time, resulting in the UK having one of the highest property-based taxes in the OECD as a proportion of GDP. (Paragraph 42)*

2.4 *We would like the Government to set out its views on the fact that business rates provides one of the highest property tax takes in the OECD. In its response the Government should address the impact that the level of business rates has on the attractiveness of the UK as a destination for investment. It should also address the impact on business directly; in this respect we note, in particular, that profitability or cash flow is not a factor in determining business rates liability. (Paragraph 43)*

2.5 *Business rates have become an increasingly significant proportion of the total taxes borne by business. In response to this report HM Treasury must explain whether it is deliberate government policy to rebalance business taxes in this way and, if so, what this policy decision is intended to achieve. (Paragraph 44)*

Response:

2.6 From 1990 to 2018 (the most recent year for which comparative OECD data is available) the revenue raised through the business rates system has fallen significantly both as a percentage of GDP and as a percentage of total tax revenue, from 1.8 to 1.5 per cent and 5.5 to 4.4 per cent respectively[1].

2.7 Recent trends in revenue raised by the business rates system can be attributed to the combined effect of adjustments made to the business rates multiplier, the growth in the number and quality of rateable properties, and the rateable value of those properties. Unfortunately, Chart 2 in the Committee's report does not take these factors into consideration (Paragraph 26).

2.8 Total revenue from business rates in England has therefore risen at a rate above inflation because the tax base has grown. Valuation Office Agency data[2] shows that the business rates base – the total rateable value of rateable hereditaments in England – grew by 60 per cent between 2000-01 and 2018-19, while the total number of rateable hereditaments on local ratings lists in England grew by 19 per cent in that time.

2.9 Between revaluations the business rates multiplier is uprated in line with inflation to ensure that revenue is maintained in real terms and to provide certainty for local government finances.

2.10 As required by the Local Government Finance Act 1988, the multiplier is adjusted at revaluations to offset the change in total rateable value due to the revaluation exercise. This adjustment reflects the Government's estimate of the overall change in the total of rateable values between the last day of the previous rating list (i.e. 31 March 2017 on the 2010 rating list) and the first day of the new list (i.e. 1 April 2017) after all future backdated alterations to both lists, and inflation. This adjustment does not offset the growth in either the volume or the quality of the stock of non-residential property.

2.11 The Government is committed to delivering a tax regime that makes the UK an attractive destination to set up and grow a business, and the UK has a fair and highly competitive tax system. Property taxes, and recurrent property taxes in particular, have several notable advantages over other forms of business taxation. They raise revenue in a less distortionary way, they are both easy to collect and hard to avoid, they are relatively stable and they are clearly linked to a particular geography so are readily linked to local government. This is a view supported by the OECD (2010)[3] and reflected in tax mixes across several other OECD countries where the revenue raised through all property taxation (including residential and non-residential property) as a proportion of GDP is broadly similar to that raised by the UK[4]. UK revenue from property taxes was 4.1 per cent of GDP in 2018, while the USA raised 3 per cent, Korea 3.3 per cent, Luxembourg and Canada 3.9 per cent, and France also raised 4.1 per cent of GDP through property taxation.

[1] https://stats.oecd.org/index.aspx?r=953515

[2] https://www.gov.uk/government/statistics/non-domestic-rating-stock-of-properties-including-business-floorspace-2019

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

[4] https://stats.oecd.org/index.aspx?r=953515

Chapter 3

Complexity of the current system

Recommendation:

3.1 *The number of reliefs that are needed for business rates to work indicate a broken system. Each additional relief adds a further layer of bureaucracy to an already complex system. HM Treasury should review all business rate reliefs to ensure that they remain necessary. (Paragraph 51)*

Response:

3.2 The Government does not agree that the number of reliefs available under a particular tax can be taken as evidence that a tax is 'broken'. Tax reliefs are introduced for many different reasons. While some may be intended to address concerns about the function of the tax system, they may also be used to provide support to certain sectors, or to incentivise particular behaviour.

3.3 The Government provides support through business rates reliefs to, for example, the smallest businesses through Small Business Rate Relief (SBRR) and to retailers through the retail discount. Doubling the threshold for SBRR from April 2017 means that more than 675,000 of the smallest businesses now pay no rates at all.

3.4 Business rates reliefs for charities and small businesses support these important features of our society, which bring benefits to communities and local economies.

3.5 Most ratepayers are only likely to be eligible for one or two reliefs. In most cases it will be clear which these are, depending on the type and rateable value of the property concerned.

3.6 The Government aims to target reliefs where support is needed most. A decision to remove a relief is equivalent to a decision to raise more revenue through business rates, so would require careful consideration.

Recommendation:

3.7 *All 361 billing authorities have the autonomy to run their business rates system as they see fit. There is no obligation for billing authorities to help businesses understand the reliefs that they may be eligible for. There is no requirement for billing authorities to be consistent in whether reliefs are applied automatically or not. (Paragraph 59)*

3.8 *The Ministry for Housing, Communities and Local Government (MHCLG) should work with all billing authorities to create a single comprehensive* *guide on how business rate reliefs are operated by the individual billing authorities. This would result in consistency in approach by all billing authorities. It would also provide clarity for business on what discretionary reliefs they may be eligible for, and what steps must be taken to claim them. (Paragraph 60)*

Response:

3.9 Business rates are a local tax administered by local government. Under this system, it is for billing authorities to make decisions on awarding business rates relief in their local areas having regard to the legislative criteria and the guidance issued by central government.

3.10 The Government encourages local authorities to work with their local businesses to raise awareness of the support available and help their own local economy. Furthermore, the Government provides additional funding to help local authorities administer the system of reliefs.

3.11 Nevertheless, the Government recognises that businesses need certainty and clarity on the range of support available. MHCLG will work with local government to produce a guide to business rates reliefs in England, which will be published this year. This will aim to provide confidence to business by promoting a shared understanding of the reliefs available and eligibility criteria. Last year, MHCLG published a similar guide to Council Tax discounts and exemptions.

Recommendation:

3.12 We recognise that transitional relief exists to minimise the movements in any particular year that result from changes in valuation, and that many businesses will have benefited from such relief. However, the decrease in open market rental valuations in the 2017 rating list needs to be reflected more quickly in rates bills for those businesses who are paying significantly higher rates than the open market rental value of their properties would normally determine. The current transitional relief system has kept rate bills artificially high over a prolonged period for many businesses. (Paragraph 69)

3.13 We recommend that transitional relief is redesigned to ensure that before the end of a rating list, businesses can complete the transition, upward or downward, to their correct rateable value. By the end of the rating list's life, all business rates liabilities should represent the period's rating list value, adjusted for inflation. This will mean that for the next rating list, there would not be any need for transitional relief related to the previous rating list's values. (Paragraph 70)

Response:

3.14 Transitional relief provides important support to businesses facing increases in their business rates at revaluation.

3.15 The Government will take the recommendations of the committee into consideration when designing the new scheme for the 2021 revaluation, but notes that a scheme which allows businesses to transition upwards to their full bill more rapidly i.e. within a single rating list would provide less support for many businesses than the current transitional relief scheme.

Recommendation:

3.16 *The current approach to business rates acts as an immediate significant disincentive to investment. Such an approach contradicts wider government policies such as reducing the UK's carbon emissions through investment in greener technologies or improving productivity. (Paragraph 82)*

3.17 *HM Treasury needs to revise the business rates system and implement change to support and encourage investment by businesses. When considering the reforms necessary to achieve these changes, HM Treasury may wish to consider lessons learnt by devolved nations when they have made similar adjustments to their business rates system. (Paragraph 83)*

Response:

3.18 Business rates are a tax on the open market rental value of non-domestic property, which means that more tax is due on more valuable properties. This is integral to the nature of a property tax based on accurate values.

3.19 The Government has enshrined its commitment to Net Zero carbon emissions by 2050 in law. In November HM Treasury launched a world-leading review into the costs of the transition to Net Zero, to determine how the UK will end its contribution to global warming. The review will consider a wide range of issues, including tax, and will report in Autumn 2020.

3.20 The Government is aware of recent reforms in Scotland, and whilst business rates in Scotland are the responsibility of the Scottish Government, we will continue to monitor these reforms.

Recommendation:

3.21 *The Government needs to ensure that business rates align with its aim to boost productivity and do not undermine its intentions to encourage businesses to invest in energy efficient technologies and better data connectivity. (Paragraph 92)*

3.22 *The classes of plant and machinery that are included in the business rates calculation were last re-defined in 1993, when the UK economy operated very differently. Many modern businesses have moved away from being dependent on plant and machinery. It is therefore unfair on the manufacturing sector for their business rates valuation to include their essential operating equipment, where other businesses are not equally affected. (Paragraph 93)*

3.23 *The Government should look at where case law currently stands on what assets are included in rateable values and should consider whether legislation is required to ensure the categories are fit for the modern economy. If it is the Government's stated aim to incentivise the transition to a green economy, it should be proactive in ensuring that businesses that invest in green assets such as solar panels or energy efficient machinery are not subjected to higher business rates as a result. (Paragraph 94)*

3.24 *HM Treasury must keep the definition of what is included in a rateable value up to-date and ensure that that definition supports wider government targets to support business growth. (Paragraph 95)*

Response:

3.25 The aim of rating is to provide valuations which accurately reflect the rental value of a property to tenants in the market. The plant and machinery (P&M) regulations seek to do this by ensuring that valuations for rating liability reflect the actual market value of the property to a prospective tenant and ignore the value of P&M specifically required for the purposes of the tenant. The consequence is that, whilst almost all businesses rely upon some P&M, the vast majority of it is not, and cannot under the regulations be, included in valuations.

3.26 As a result, most P&M used in a productive process is exempt from rating. This is known as the 'tools of the trade' exemption and is a longstanding principle in the rating system. It means that most rateable P&M tends to be integral to making properties useable for the purpose they are intended, such as lifts, heating and lighting. To exclude this remaining rateable P&M from the calculation of rateable value, the VOA would need to determine the market rent of a building as if it did not include those key integral features. Since this P&M tends to be reflected in rental agreements without specific values attributed, there would be no direct market evidence upon which to found the valuation of properties without these items.

3.27 The wider tax system supports businesses investing in productive capital. For example, Budget 2018 announced an increased Annual Investment Allowance limit of £1 million for two years, covering investments in P&M, and a new Structures and Buildings Allowance of 2 per cent per annum, to support investments in non-residential structures and buildings.

3.28 On the green economy, the Government is continuing to support the take up of solar panels by maintaining the business rates exemption for solar power generating equipment (less than 50kW) between its installation and the next revaluation. These regulations give ratepayers the confidence that installing such equipment will not trigger an immediate increase in business rates.

Recommendation:

3.29 The VOA's previous appeals system needed to be replaced. It made it too easy for businesses to make speculative appeals and created an unsustainable workload for the VOA. (Paragraph 99)

3.30 It is unacceptable that there are still appeals outstanding from the 2010 listing, years after the appeals were first raised. The VOA must resolve these appeals as a matter of urgency. Such long delays bring the work of the VOA into disrepute and undermine trust in the UK tax system. No business should be waiting for over two years into the next rating list for their checks or challenges from the previous rating list to be resolved. (Paragraph 111)

Response:

3.31 The previous appeals system did need to be replaced. There were large numbers of purely speculative appeals made with little or no evidence which slowed the system. This was unfair on those businesses with a genuine evidence-based case. Around 70 per cent of appeals against the 2010 rating list resulted in no change. Check, Challenge, Appeal (CCA) was introduced to make the system fairer for ratepayers with genuine appeals.

3.32 Checks and Challenges are designed to provide resolution of issues as early as possible in the process, by confirming the details of the property at the outset and starting a review of the valuation where the ratepayer believes it is incorrect and there is evidence to support this. If ratepayers are not content with the outcome of their Challenge, they are then able to appeal to the Valuation Tribunal Service.

3.33 Over 1.1 million appeals were made against the 2010 list and 99 per cent of those cases within the VOA's control have been resolved. After the 2017 list came into effect the VOA committed to clearing the remaining 2010 appeals within its control by the end of September 2019. For England at 2 February there are c.53,000 appeals outstanding from the 2010 rating list of which c.910 are within the VOA's control and not held up in litigation. This includes c.860 appeals arising from the introduction of the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 which reopened the list to appeals from affected ratepayers and closed except in specific circumstances on 31 December 2019. These appeals (also referred to as 'Mazars' cases) were not part of the original commitment and the VOA is working through them as quickly as possible.

3.34 The remaining c.50 cases within VOA control include a small number of extremely complex cases where there are limited numbers of specialists that deal with them in both the VOA and externally in the appointed agent community. Only around ten of these are appeals made before 2015 – the bulk were received towards the end of the 2010 list period. There are targets for all cases within VOA control to complete discussions and timetables have been agreed with agents and ratepayers.

Recommendation:

3.35 The current statutory response times are too generous. No business should have to wait up to two and half years for their appeal to conclude. We recommend that the Government introduces new secondary legislation under Section 143 of the Local Government Finance Act 1988 to reduce the statutory limit for both Checks and Challenges to a more reasonable timeframe, preferably a maximum of six months each. (Paragraph 112)

Response:

3.36 The Government agrees that appeals should be resolved as quickly as possible. This requires timely action by all parties. The VOA aims to resolve 90 per cent of Check cases within three months of receipt and 90 per cent of Challenge cases within 12 months of receipt. In 2018-19 the VOA resolved 79 per cent of Check cases within 3 months of receipt and 81 per cent of Challenge cases within 12 months of receipt.

3.37 The VOA works to meet the targets set out above, and these targets are published in the VOA's business plan. The statutory targets for Checks and Challenges are not intended to reflect these targets but instead provide a backstop to ensure that ratepayers are able to progress through the system if the VOA fails to act. The difference in statutory timescales reflects the differences in the Check and Challenge stages. Challenge is a more complex stage than Check so has a longer timeframe to reflect that it is the place for detailed discussion between parties.

3.38 The effectiveness of CCA will not fully be known until the completion of a full appeals cycle. MHCLG has on 27 February published an interim assessment of the impact of the CCA system that considers the available evidence from the first three years of CCA and, based on that, sets out the Government's view on progress to date in delivering against the key policy objectives of the new framework.

Recommendation:

3.39 The VOA considers the level of information it is providing to ratepayers is sufficiently transparent. However, the evidence we received from business ratepayers, across a variety of sectors, shows that many businesses do not agree. The VOA has a duty to maintain trust and confidence in its appeals process. Where there is a legislative block on providing a ratepayer with all relevant evidence used to establish a property valuation, the VOA must ensure the ratepayer understands the reasons why such evidence is being withheld. The VOA should also monitor and report to us annually how often it denies transparency requests. (Paragraph 122)

Response:

3.40 The VOA provides a range of information to inform ratepayers how their valuations have been determined. This includes around 200 practice notes explaining their approach to valuing different types of property. Through the VOA's online service ratepayers for most types of property can view the details of their property and valuation, and how that was determined, including how this compares with other properties. Once a ratepayer has confirmed that they have a legitimate interest in a property they can see the full detailed valuation of the property without needing to submit either a Check or a Challenge.

3.41 At Check stage the ratepayer can, where the valuation has regard to a survey, view the survey information for their property that the VOA holds. At Challenge the VOA is required to provide ratepayers with any relevant information held that relates to the particulars of the ground of the proposal. This may, depending on the grounds of the proposal, include rental information on comparable properties used to determine the levels of value for the ratepayer's property. Ratepayers can also request specific information about other properties if they believe it relates to their case. Evidence that was available and should have been shared at the Challenge stage cannot generally be used at the appeal stage, so it is in both parties' interest to disclose all the relevant evidence they hold.

3.42 The Government recognises that some ratepayers and their advisers want more information to be publicly available, rather than held within a portal with restricted access. In contrast, some ratepayers have indicated they would not want their information to be publicly accessible as rental information is often considered to be commercially sensitive.

3.43 However, as an executive agency of HMRC, the VOA is prohibited from publicly disclosing rental information due to the strict duty of confidentiality owed under the Commissioners for Revenue and Customs Act 2005 (CRCA). CRCA does enable information sharing for the purpose of exercising a function (such as compiling and maintaining the rating list, dealing with Checks and Challenges) or where there is a legal gateway. Any information disclosed is proportionate, reasonable and necessary in accordance with Article 8 (the right to privacy) under the Human Rights Act 1998. To disclose information more publicly could risk breaching legislation which may have serious consequences (such as criminal sanctions) and affect the confidence of business in continuing to provide the VOA with the information needed to deliver valuations.

3.44 Requests for rental information are made by the VOA on the basis that it is for the purposes of non-domestic rating and will be protected from public disclosure by the legislation.

Recommendation:

3.45 It is unacceptable to bring in a system that creates so many difficulties for ratepayers. The Check Challenge Appeal process should have been designed so that at its initial implementation in April 2017 it had more functionality than the system it was replacing. In particular, it should have been possible for businesses with multiple properties to authorise an agent to work on their behalf, as firms were able to do previously. (Paragraph 135)

3.46 Bringing a new system online with less functionality than its predecessor has eroded public confidence. Whilst the VOA has improved the functionality of the system for multi-site and larger businesses since Check Challenge Appeal was introduced, these issues were known about before implementation. They should have been addressed before the system went live. (Paragraph 136)

3.47 The overwhelming evidence is that the VOA's systems do not work for ratepayers with multiple properties. There continues to be a disconnect between how the VOA and the users of the Check Challenge Appeal view its ease of use and complexity. The VOA must make sure that ratepayers with multiple properties are able to use its systems easily and that its systems are not creating unnecessary additional bureaucracy. (Paragraph 137)

Response:

3.48 The Government has acknowledged that CCA initially launched with a service that was less extensive than originally planned, which affected some ratepayers. The evidence presented to the Committee largely reflects this historical position.

3.49 The VOA worked with business groups and agents to develop a plan for delivery of improvements to the Check and Challenge service. These improvements went beyond original plans and included:

- provision of application programme interfaces (APIs) to enable large or bulk users of the CCA service to use their own software to directly link to CCA and transfer relevant data. This includes the ability to write software that allows them to submit multiple property claims

- making it simpler and quicker to register for the CCA service by removing the requirement for every user of the system to be personally named and have their identity validated
- introducing a "trusted helper" scheme, so that customers who cannot register online can appoint an individual or organisation to do so on their behalf. This particularly helps ratepayers who are foreign nationals
- expanding the property types that are included within the digital service. This enables customers to access the detailed information on which the VOA's valuation has been based immediately, reducing the need for manual process to provide this information and reducing time and delay for our customers. 93 per cent of properties are now included on the digital service
- digitising Challenge to remove the need for customers to download a complex PDF form, complete it offline, scan it and send it back to VOA when they wanted to submit a Challenge. This can now all be done digitally

3.50 The VOA continues to engage with stakeholders and conduct user research to look at ways to further improve the system. The VOA is currently conducting a customer evaluation of the delivery of the new system and intends to publish this in Autumn 2020.

Recommendation:

3.51 HM Treasury should work closely with the VOA and HMRC to develop a timetable to migrate business rates onto the 'Making Tax Digital' platform. The migration needs to learn from the lessons of bringing Check Challenge Appeal online ensuring that there is no loss of functionality with the transition. (Paragraph 143)

3.52 Moving to the 'Making Tax Digital' platform would give the VOA the opportunity to revisit the issue of user authentication and to improve the verification process, for example through alignment of business rates with VAT returns. There may also be scope for further authentication in future as other business taxes are brought into the system. (Paragraph 144)

Response:

3.53 The benefits of the Committee's proposal of migrating business rates onto the Making Tax Digital (MTD) platform for ratepayers are unclear. MTD helps businesses to keep their tax records using digital tools and submit tax returns from those records. This is designed to address part of the tax gap that is attributable to error and failure to take reasonable care. Paving legislation was however enacted on 4 July 2019[1] to enable HMRC to start to explore the feasibility of modernising the administration of business rates.

Recommendation:

1 http://www.legislation.gov.uk/ukpga/2019/19/contents

3.54 *Valuations do not always appear to use the most appropriate methodology or reflect changing business models. Businesses must be able to adapt to compete in the modern economy and good tax policy should be fair and coherent. The VOA must ensure that it is open-minded and prepared to revisit the traditional way that it values businesses to ensure that they take account of real-life modern business experience. We recommend that internal guidelines are reviewed to ensure staff take a flexible and responsive approach to valuation. (Paragraph 154)*

3.55 *It appears that the system permits significant discrepancies to exist in the valuations of seemingly similar businesses. We recommend that in its review of internal guidelines the VOA looks at how those discrepancies arise and whether there is scope to improve valuation methodologies so they lead to more consistent outcomes. (Paragraph 158)*

Response:

3.56 In carrying out its role the VOA uses internationally recognised valuation approaches for property taxation adopted by Assessment Authorities, the Royal Institute of Chartered Surveyors (RICS) and the International Association of Assessing Officers (IAAO). These are set out in the VOA's valuation manual, which is available on gov.uk, alongside around 200 practice notes which are reviewed and updated at every revaluation.

3.57 The VOA is one of the largest employers of RICS Valuation Surveyors in the UK. Staff use the guidance available to them, as well as their own expertise and knowledge of the different property classes and locations, to make valuation judgements. There are additional processes to coordinate valuation approaches, as well as risk-based assurance procedures.

3.58 The VOA values property, not businesses, and similar businesses do not necessarily occupy similar properties. In carrying out valuations the VOA considers all of the available evidence and uses this to apply the valuation method that will give the most accurate estimate of a property's open market rental value.

3.59 The VOA engages with a wide range of stakeholders to agree schemes of valuation that can be applied consistently across the industry or sector, to ensure similar properties are valued in a uniform manner. During each revaluation, the VOA considers new market evidence and engages with industry bodies and representatives to discuss any proposed changes to methodology, using scheduled forums and engagement events and, where possible, meeting individually with affected ratepayers.

Recommendation:

3.60 *Business rates need to be fair to all ratepayers, and where unfairness is perceived, action needs to be taken to address the concern. At present, there is a significant level of distrust of the VOA's valuation techniques in some business sectors. When a ratepayer questions a valuation, VOA staff should explain clearly how their valuation complies with their own guidance, particularly when they have used the contractor's valuation method. The VOA must also take appropriate action to put things right quickly when presented with evidence that their valuation is incorrect. (Paragraph 162)*

Response:

3.61 The VOA operates in accordance with legislative requirements, including disclosure of information to explain its decisions. If a ratepayer contacts the VOA with questions about a valuation, staff will explain the valuation approach for their type of property and will direct them to the relevant guidance for their type of property, which is published on gov.uk. If a query cannot be dealt with at the first point of contact, it will be allocated to the most appropriate team within the organisation to ensure that customers receive the assistance they require.

3.62 The VOA is committed to providing a good service to all customers and stakeholders, and regularly engages with ratepayer representatives, professional bodies and agent communities by hosting forums and participating in engagement events. This allows the VOA to understand the priorities of its customers, helping the VOA to develop and deliver services that meet their needs.

Chapter 4

Alternatives to the current system

Recommendation:

4.1 *A land-based tax is theoretically appealing as it charges landowners rather than tenants—although it cannot be known on whom the final incidence of the tax would fall—and incentivises the best possible use of land. However, the practicalities of implementation are very difficult. It is likely that there would be more appeals. There would be an enhanced level of technical judgement required, particularly in built up areas where there are very few sales to generate a reliable value and it is very difficult to separate the value of land from the value of the buildings that are situated on that land. Land value tax would incentivise high-density usage, and there could be instances where this would not be the desired outcome, such as green spaces. (Paragraph 170)*

4.2 *In response to this Report Treasury should research examples from other countries with Land Value Taxes such as Australia and Denmark. (Paragraph 171)*

4.3 *Businesses deserve a system that reacts to changes in the modern economy. A number of alternatives to the current business rates system were presented and an equal number of reasons presented as to why England and Wales are not yet ready to move to them. One of the key reasons is that there is insufficient modelling of the viable alternatives, and therefore insufficient data to make a recommendation for change currently. This is true of the online sales levy. (Paragraph 182)*

4.4 *On its own, a single consolidated tax would not appear to present sufficient solutions to the issues being experienced by the current business rates system. Nonetheless a single consolidated tax would be simple, it is something that some small businesses want, and, if it was designed to be revenue neutral, could be a viable option in the future. (Paragraph 194)*

4.5 *A hybrid system is a potentially viable option in the future that would enable the Government to have a tax system that is more reactive to changes in the modern economy. However, to be assessed further it needs a comprehensive plan outlining how a hybrid tax could be constituted, and a blueprint for taking this idea further. (Paragraph 199)*

4.6 *It is clear change is needed to the current business rates system. None of the alternative systems presented to this inquiry have demonstrated that they are a clearly superior alternative. However, it should not be up to external stakeholders to develop and evaluate detailed proposals. Given the changing nature of the economy, and with high streets on the decline, the*

Government needs to be curious, proactive and creative in exploring alternative options to such an important source of Government revenue. We recommend that the Government prepares a consultation in time for the next Spring Statement to identify potential alternatives to the current system of business rates and form the basis for a subsequent detailed evaluation of viable options. (Paragraph 200)

4.7 *The primary considerations given the extended period of time this has been an issue, should be the ease and speed with which any potential reforms can be introduced and the fairness of the system. (Paragraph 201)*

Response:

4.8 Recurrent taxes on non-domestic property feature in the taxation systems of most modern economies. As set out above, business rates provide a relatively stable source of revenue to fund local services, are easy to collect and difficult to avoid. Commercial property also remains a valuable asset in the UK, including for developers, inward investors and sovereign wealth funds.

4.9 Whilst noting the Committee's recommendation that change is needed, the Government is clear that evaluations of options for reform should be undertaken in a considered, evidence-based manner. The Government's approach – considering significant changes to the business rates system as part of conducting a fundamental review – is the right one. The Government also notes that in the course of its inquiry the Committee has received evidence on the potential regional and distributional impacts of alternative taxes and the practical challenges that these alternatives might involve. HM Treasury will take international examples and best practice into account when conducting the fundamental review.

Chapter 5
The VOA

Recommendation:

5.1 *Reducing the gap between revaluations from five years to three years will increase the demands on the VOA. The VOA needs to ensure that it is properly staffed to deliver its specialist role. This includes sufficient resource to deliver the next valuation listing on time, to be able to respond to Checks and Challenges on the current system, and to be able to conclude appeals from the legacy systems and enhance functionality on the Check Challenge Appeal process simultaneously. The VOA must perform a detailed analysis of its staffing and skills requirement in time for the next Spending Review and share it with this Committee. (Paragraph 212)*

Response:

5.2 The VOA is an executive agency of HMRC, which is funded at each Spending Review by HM Treasury. HM Treasury and HMRC are satisfied that the VOA provides detailed analysis of its staffing and skills requirement at every fiscal event and Spending Review. The respective finance partners in HMT, HMRC and the VOA maintain ongoing discussions in between Spending Reviews to monitor VOA resourcing requirements. The VOA is sufficiently resourced to carry out its functions and remains within budget, although resourcing of experienced professionals remains challenging. The VOA received £203 million in funding for 2019-20, including an additional £25 million to deliver the 2021 revaluation. This is in addition to the extra £9 million provided in 2018-19 to support work on the 2021 revaluation. Budgets for future years beyond 2021 will be covered by the next Spending Review. HMRC has on 27 February published a Tailored Review of the VOA which considers its role, its governance, and its operational efficiency and effectiveness.

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This document can be downloaded from
www.gov.uk

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CS0220038498
978-1-912809-99-8