HM Treasury

Transforming Business Rates

October 2024

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Foreword

The government is reforming Britain's economy to bring about a decade of renewal.

Over the course of this Parliament, the government will create a fairer business rates system that protects the high street, supports investment, and is fit for the 21st century.

At Autumn Budget 2024, we made the first step with the announcement of permanently lower multipliers for the Retail, Hospitality and Leisure properties that make up the backbone of our high streets, from 2026-27.

This paper invites business and other stakeholders to a conversation about how the government can best deliver this transformed system. I welcome stakeholders' engagement on the priority areas for reform set out in this paper.

Together, we can co-design measures to help fix the foundations of the business rates system.

James Murray MP

EXCHEQUER SECRETARY TO THE TREASURY

Chapter 1
Introduction

Long term ambition for Business Rates

1.1 Recurrent taxes on the value of property are a longstanding feature of the tax system in England. The business rates system continues to hold many advantages over other types of tax: rates are easy to collect and provide a stable source of revenue to local government.

1.2 Business rates are forecast to raise £26 billion in 2024-25[1] and make up a quarter of Local Authority core spending power. They support critical local services, including child and adult social care.

1.3 Business rates are a tax on the value of property and so property intensive sectors bear a proportionately greater share of the overall business rates burden.

1.4 This applies to the businesses that make up our high streets, which create hubs of economic activity and provide a meeting place for local communities.

1.5 Businesses have raised concerns that the business rates system disincentivises investment and is slow to respond to changing economic conditions.

1.6 The government therefore agrees with businesses that reform is needed.

1.7 At Autumn Budget 2024, the government announced its first steps to reform the business rates system:

- **An intention to introduce permanently lower multipliers for retail, hospitality and leisure (RHL)** properties with a rateable value (RV) under £500,000 from April 2026-27.
- **An intention to fund this sustainably** via a higher multiplier on all properties with RV of £500,000 and above, which includes the majority of large distribution warehouses including those used by online giants.
- **Providing support for retail, hospitality and leisure properties in the interim period leading up to the new permanent multiplier** by providing 40% relief to RHL

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1 National non-domestic rates collected by councils in England: forecast 2024 to 2025 - GOV.UK (www.gov.uk)

businesses on their business rates in 2025-26, up to a cash cap of £110,000 per business.

- **Protecting the smallest properties** by freezing the small business multiplier in 2025-26 and protecting over a million properties from inflationary bill increases.

1.8 However, the business rates system cannot be transformed overnight and the government believes that the best outcomes will be achieved by developing reforms in partnership with businesses and other stakeholders through a process of co-design. This document sets out the government's priorities for further reform to support initial engagement with businesses.

1.9 The government will make further improvements over this Parliament to deliver a fairer business rates system that is fit for the 21st century – one which delivers on the government's commitments to provide certainty to businesses, to support the high street and to incentivise investment.

1.10 Details of how interested individuals, businesses, business representative organisations, Local Authorities, rating agents and others involved in the operation of the system can participate in this work can be found in Chapter 4.

Scope of reforms

1.11 The government's objectives for reform are:

- protecting the high street;
- encouraging investment; and
- creating a fairer system.

1.12 The government will consider how any potential changes align with these objectives, the government's wider objective of delivering sustainable public finances and its mission to kickstart economic growth.

1.13 This document sets out the government's areas of interest for further reform to indicate where we will be engaging stakeholders. Not everything discussed in this document will necessarily be taken forward. Final decisions will be taken in the context of the government's objectives for the business rates system and its wider objectives, including the overall fiscal position to ensure the sustainability of the public finances. Reforms taken forward will be phased over the course of the Parliament.

1.14 Business rates are an important source of revenue for local government and the impact on the local government funding system will be an important consideration in reviewing the tax. The government will work with local government to ensure that longer-term tax changes are accounted for within the local government finance system so that, as far as practicable, local authority funding is unaffected from these tax reforms. Moreover, consideration will be given to the operational impacts of decisions, and these will be taken in the context of the system's current operation, including Local Authority and VOA operational capacity.

1.15 For further information about how the business rates system works, please see https://www.gov.uk/introduction-to-business-rates.

About this paper

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

1.17 **Chapter 2** details the immediate actions taken by the government in the Autumn Budget 2024 to protect the high street

1.18 **Chapter 3** sets out the government's areas of interest for further reform

1.19 **Chapter 4** sets out next steps and how stakeholders can participate

Chapter 2

Protecting the high street

The case for rebalancing the burden to support high streets

2.1 Protecting and supporting high streets is a priority for the government. They are focal points of economic activity and, most importantly, they are a point of local pride and can reflect the unique character of a community.

2.2 High street businesses are contending with changing consumer shopping habits and have faced a series of economic headwinds in recent years, including the pandemic. While online shopping is convenient and offers great variety, the high street brings people together. Furthermore, over the last decade, hospitality businesses have played an increasing role in driving footfall and the high street has become a key experiential destination.

2.3 However, the business rates burden falls more heavily on property-intensive sectors. This is why the government wants to ensure that the business rates burden is permanently rebalanced and high street businesses are protected.

A permanent intervention that will provide certainty

2.4 Since the COVID-19 pandemic, a one-year RHL relief has been repeatedly rolled over as a temporary stopgap. However, this has meant uncertainty for businesses about their business rates bills from one year to the next and has created a significant fiscal pressure for the government.

2.5 The fiscal position is challenging, but the government believes it is important to establish permanent, sustainable support for RHL businesses within the business rates system.

2.6 This is why the government has announced that it intends to introduce permanently lower tax rates for retail, hospitality and leisure properties with RVs under £500,000 from 2026-27.

2.7 To target support towards smaller RHL properties, the government intends to give the biggest cut to RHL properties currently paying the small business multiplier – those with a rateable value less than £51,000. RHL properties currently paying the standard multiplier, with a rateable value between £51,000 and £499,999 will also benefit from a permanently lower multiplier. The rates for these new multipliers will be set at Autumn Budget 2025 in light of the outcomes of the 2026 revaluation.

2.8 This tax cut must be sustainably funded. The government intends to fund this intervention within the business rates system by asking those who can contribute more to play a role in supporting the high street. Therefore, the government intends to introduce a new higher multiplier for all properties with RVs of £500,000 and above from 2026-27, which captures the majority of large distribution warehouses, including those used by online giants.

2.9 The government will bring forward primary legislation to amend the Local Government Finance Act 1988. This will enable the government to introduce lower multipliers for RHL properties and a higher multiplier for all properties with RVs of £500,000 and above.

2.10 During the interim period, for 2025-26, RHL businesses will receive a 40% relief on their business rates up to a cash cap of £110,000 per business. By continuing to provide RHL relief rather than the inherited policy to remove it entirely, the government has saved the average pub, with a rateable value of £16,800, over £3,300 in 2025. To protect the smallest properties from inflationary increases, the small business multiplier will also be frozen in 2025-26.

Chapter 3

Priority areas for further reform

3.1 Beyond protecting the high street, the government is committed to delivering a fairer business rates system that supports investment and is fit for the 21st century.

3.2 This chapter sets out the government's priority areas for further reform. The government will begin engagement with businesses on these areas as a priority.

Incentivising investment and growth

3.3 It is a feature of a property tax that improvements which increase the value of a property will lead to an increase in the associated tax liability. The government wants to support businesses to grow and would like to understand more about the barriers to investment within the system.

3.3 Not all investments lead to an increase in Rateable Value. As a rule of thumb, if investments in a property are of a scale that they would be reflected in rents, then they are likely to give rise to an increase in Rateable Value. There are also a number of exemptions that exist within the system, particularly with regards to most plant and machinery where used as an integral part of a business process.

3.4 There have been some recent changes in this area, including the introduction of Improvement Relief in April 2024 and the business rates exemption for green plant and machinery. Areas the government is interested in hearing about include, but are not limited to:

- **The efficacy of Improvement Relief** which was introduced in April 2024 and provides 12 months of relief for qualifying improvements to a property;
- The **relative importance of business rates and other tax factors,** e.g. capital allowances, when businesses are making investment decisions;
- **The impact of losing Small Business Rates Relief (SBRR) on expansion to a second property** unless certain conditions are met;
- The presence of **cliff-edges in the system** which may act as a disincentive to expand, exacerbated by the 'slab' approach which means the whole property becomes subject to the

higher tax rate if a threshold is crossed meaning very high effective tax rates around thresholds.

- The **efficacy of Empty Property Relief** in supporting landlords to make improvements to their properties.

3.5 The government is open to considering other elements of the system that could be holding back investment and welcomes suggestions from stakeholders.

A fairer business rates system

3.6 The government believes a fair business rates system is one in which everyone pays their share and valuations are responsive to economic reality.

Tackling avoidance and evasion

3.7 Most businesses pay the rates that are due, but a minority abuse the system, through either avoidance or evasion, to reduce their bills or avoid paying rates altogether. This imposes an unfair burden on the majority and prevents funding from reaching local services.

3.8 The 2023 Avoidance and Evasion consultation[2] confirmed that business rates avoidance is a significant and multifaceted issue. It confirmed that abuse of Empty Property Relief (EPR) through repeated artificial occupation had become pervasive and in response the government extended the reset period to three months. **The government will consider whether this change has effectively reduced the financial incentive to avoid business rates.**

3.9 Respondents to the consultation expressed concerns that new avoidance schemes would continue to emerge. **The government is committed to making further progress to tackle avoidance and will publish a consultation on adopting a "General Anti Avoidance Rule" for business rates in England.** A General Anti-Avoidance Rule (GAAR) is a legal framework which provides government with greater flexibility to counter avoidance schemes as they emerge.

Making the system more responsive

3.10 For business rates, the distribution of the tax is determined through revaluations which periodically reassess and update individual property values to reflect changes in the rental market. This helps to ensure that shifts in economic activity that drive changes in underlying market values are fairly reflected.

3.11 However, there are two factors that limit the responsiveness of the system to change, and therefore can create unfairness in the system. First, there is a two-year gap between the date on which properties are valued – the Antecedent Valuation Date (AVD) – and the

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2 Business Rates Avoidance and Evasion: Consultation - GOV.UK

date on which a new rating list comes into force. Second, there is a three-year gap between revaluations. These two factors mean that, by the end of the three-year rating list, it has been five years since the AVD.

3.12 Some stakeholders have expressed caution about the adverse impacts more frequent revaluations could have such as greater instability in the system. However, shortening the gap between the AVD and the start of the list, and increasing the frequency of valuations, could ensure liabilities are more responsive to economic reality and reduce the potential for jumps in bills at revaluations, making the system more responsive.

3.13 **The government will work with businesses to assess the potential costs and benefits of shortening the gap between the Antecedent Valuation Date and valuations coming into effect, and increasing the frequency of revaluations, while also assessing the delivery considerations.**

Delivering enabling reforms

3.14 Condensing the revaluation of 2 million non-domestic properties into a shorter time frame requires underpinning changes including asking ratepayers to provide information to the VOA annually, and changes to (and investment in) the VOA and its processes.

3.15 Before shortening the AVD or increasing the frequency of valuations further, there is ongoing work that must be completed to make the move to a 3-yearly revaluation cycle sustainable, including the VOA's technology transformation and the reforms legislated for in the Non-Domestic Rating Act 2023[3]:

3.16 These initiatives will deliver greater transparency on valuations for ratepayers, greater valuation accuracy and a streamlined appeals process.

3.17 The 2020 review[4] set out that the information duty and phase 1 transparency would be rolled out between April 2023 and March 2026, with phase 2 transparency and reforms to check, challenge and appeal (CCA) being implemented from 2026-27 onwards.

3.18 Due to system-wide complexity of implementing these reforms, and following further consultation with ratepayers – see the Summary of Responses to the Disclosure Consultation published at Budget[5] – the VOA has revised these timelines:

1. Phased implementation of the new transparency requirements will begin in 2026 with most ratepayers being able to access more tailored details about comparable properties, and expanded

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3 4/2023: The Non-Domestic Rating Act 2023 - GOV.UK

4 BRR_final.pdf

5 https://www.gov.uk/government/publications/disclosure-consultation-summary-of-responses

information on valuation information and rental evidence available from 2029.

2. The information duty will begin rollout from 1st April 2026. The rollout will be phased to ensure that the system works as intended, for all cohorts of ratepayers. The information duty will be formally activated and mandated for all by 1st April 2029. The removal of 'Check' as a separate process and a shortened 'Challenge' timeline will be implemented for the 2029 rating lists.

3.19 The government expects that it may be challenging to make further steps towards shortening the valuation gap and even more frequent revaluations during this parliament. However, the government will consider whether work can be done alongside this to enable further advances.

A proportionate burden

3.20 The business rates system is designed to raise more revenue as new development takes place, increasing the tax base. Between revaluations, the tax rate (multiplier) is uprated with CPI inflation. At revaluations, if aggregate rateable value rises, the tax rate is adjusted downwards to offset the additional rateable value. Conversely, if aggregate rateable value falls, the tax rate is adjusted upwards, to maintain revenue. As a result, at a revaluation, individual ratepayers' bills are influenced not just by changes in the value of the property they occupy, but also by the change in all other property values.

3.21 In effect, revaluations in a downturn do not reduce revenues for local authorities even if the value of business property has declined. In practice, the government has intervened to provide significant Exchequer funded support for businesses at, and in between, revaluations. **The government will explore whether this feature of the system creates sub-optimal outcomes in economic and fiscal terms, and whether bills for business should move with changes in the value of the property occupied.**

A system fit for the 21st Century

3.22 The business rates system has origins reaching back to the Poor Laws 1601 which means some features of the system are out of date and out of line with other taxes.

3.23 One example is the lack of centrally held data on business rates. Business rates is administered by 296 billing authorities that each hold data on the properties in their areas. Currently, the government only holds property level information about rateable values, with no data about the financial position of the businesses that occupy them. The Digitalising Business Rates (DBR) project was first announced in 2016 and is a HMRC-led project to match property level business rates data across English and Welsh Local Authorities with HMRC business level tax data. It is dependent on the information duty (see 3.18).

3.24 The DBR project will enable the government to target financial support to businesses that need it most. Once implemented, DBR will provide the government with a rich body of data, which will better inform policy decisions to support growth and encourage investment, and better enable local authorities and HMRC to tackle tax avoidance. **As such, the government is confirming its intention to proceed with the delivery of DBR and aims for the programme to be delivered by March 2028.** The full benefits of DBR will be realised following the activation of the information duty.

Other concerns

3.25 The areas set out in this chapter are the government's initial areas of interest for reform. The government is open to hearing from stakeholders who might have views on improvements to the system that don't neatly fit in the above areas but do align with the government's stated objectives.

Chapter 4

Conversation between stakeholders and government

How to participate

4.1 The government is interested in engaging with all interested parties and stakeholders on the priority areas set out in chapter 3. We are especially interested in the views of:

- Businesses and business representative organisations
- Local authorities
- Rating agents

4.2 We will be conducting engagement between November 2024 and March 2025, with an initial phase of engagement before Christmas. If you would like to be involved, please contact transformingbusinessrates@hmtreasury.gov.uk by 15 November.

4.3 We are also open to receiving written evidence from stakeholders on the priority areas set out above. Please send representations as soon as possible and no later than March 2025. When responding, please say if you are making a representation on behalf of a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.

Chapter 5

Processing of personal data

Processing of personal data

This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR)[6]. For the purposes of the UK GDPR, HM Treasury is the data controller for any personal data you provide in response to this discussion paper.

Data subjects

The personal data we will collect relates to individuals responding to this discussion paper. These responses will come from a wide group of stakeholders with knowledge of business rates.

The personal data we collect

The personal data will be collected through email submissions and are likely to include respondents' names, email addresses, their job titles and opinions.

How we will use the personal data

This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest.

Processing of this personal data is necessary to help us understand who has responded to this discussion paper and, in some cases, contact respondents to discuss their response.

Lawful basis for processing the personal data

Article 6(1)(e) of the UK GDPR; the processing is necessary for the performance of a task we are carrying out in the public interest. This task is inviting views on the business rates system, to help us to develop effective government policies.

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6 Data protection: The Data Protection Act - GOV.UK

Who will have access to the personal data

The personal data will only be made available to those with a legitimate business need to see it as part of process of reviewing the business rates system.

We sometimes conduct discussion papers in partnership with other agencies and government departments. This discussion paper is being conducted in partnership with the Valuation Office and the Ministry for Housing, Communities and Local Government. Personal data received in responses will be shared with these partner organisations in order for them to also understand who responded to the discussion paper.

As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this personal data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we hold the personal data for

We will retain the personal data until work on the discussion paper is complete and no longer needed.

Your data protection rights

Relevant rights, in relation to this activity are to:

- request information about how we process your personal data and request a copy of it
- object to the processing of your personal data
- request that any inaccuracies in your personal data are rectified without delay
- request that your personal data are erased if there is no longer a justification for them to be processed
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

How to submit a data subject access request (DSAR)

To request access to your personal data that HM Treasury holds, please email: dsar@hmtreasury.gov.uk

Complaints

If you have concerns about Treasury's use of your personal data, please contact our Data Protection Officer (DPO) in the first instance at: privacy@hmtreasury.gov.uk

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at casework@ico.org.uk or via this website: https://ico.org.uk/make-a-complaint.

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This document can be downloaded from www.gov.uk

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