HM Treasury

Transforming Business Rates: Interim Report

September 2025

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Foreword

Our Government is determined to remove barriers to investment for businesses across Britain. Doing so will support businesses to succeed, help our high streets to thrive, and by growing the economy, it will put more money in people's pockets.

Reflecting the importance of high streets in everyday life, in every part of the country, at Autumn Budget 2024, the Chancellor announced new, permanently lower tax rates for retail, hospitality, and leisure properties with Rateable Values under £500,000 from April 2026.

The Chancellor was also clear that we wanted to go further. We are clear that business rates should support economic growth and entrepreneurship, while continuing to provide a stable source of revenue for local services. The Discussion Paper allowed us to start a conversation with you on how we can best deliver this.

We are grateful to have heard from a range of sectors and interested parties who have provided feedback across many different aspects of the business rates system. This engagement has demonstrated the strength of feeling among stakeholders about this tax and reinforced our conviction in the need for ongoing reform of the system of business rates.

The breadth of this engagement has left us with a range of areas to consider in the coming months and years. This Interim Report provides an update on what we have learnt since Autumn Budget 2024 and what we will do next to meet our objectives of delivering a fairer business rates system that supports investment and is fit for the 21st century.

The Government will now engage with stakeholders on the reforms outlined to incentivise investment, so that we can remove barriers in the system and provide certainty and stability for ratepayers. In particular, we will explore the case for transforming business rates from a 'slab' to a 'slice' approach, and for strengthening Small Business Rates Relief to support small businesses to grow.

The Interim Report does not represent a set of policy recommendations. The Chancellor will provide a further update at Autumn Budget 2025, taking into account the 2026 revaluation outcomes, local government funding, and the economic and fiscal context. I look forward to working with businesses and other stakeholders as we further consider the priorities our engagement so far has identified.

Any reforms taken forward will continue to recognise the importance of high streets as a vital source of essential services, a focal point for communities and the foundations of strong local economies.

Dan Tomlinson, Exchequer Secretary to the Treasury

Chapter 1
Introduction

1.1 At Autumn Budget 2024, the Government published a Discussion Paper setting out the priority areas of reform for business rates and inviting stakeholders to work with us on plans to transform the system.

1.2 The Discussion Paper set out the Government's intention to deliver meaningful business rates reforms to:

- Incentivise investment and growth;
- Support the high street with a fairer system; and

1.3 Make the system fit for the 21st century.

1.4 This document is a UK Government response which summarises findings from ministerial and official level meetings that have taken place since the publication of the Discussion Paper and written representations the Government received from 31 October 2024 to 1 April 2025.

1.5 One of the major themes that emerged from feedback was an impression that the business rates system acts as a barrier to investment. The system means that improvements which increase the value of a property, or expansion that takes place into additional properties, will lead to an increase in the associated tax liability.

1.6 Roundtable attendees reported that business rates is one of the most influential factors in investment decision making. Respondents highlighted the potential to improve investment incentives through changes to the tax rate (otherwise known as the multiplier), the tax structure, and reliefs within the system.

1.7 This paper sets out the following aspects of the system as priority areas for further exploration to improve the operation of the business rates system:

- 'Slab' to 'slice' reform – exploring moving from the current tax structure (where a single multiplier is paid on the full Rateable Value (RV)) to a new structure based on marginal tax rates (where successive bands are taxed at increasing rates);
- Enhancing Small Business Rates Relief (SBRR) to support business growth and investment;
- Enhancing Improvement Relief once more data is available to establish how it is currently being used;

- Exploring stakeholder concerns over the 'Receipts & Expenditure' methodology and options to address these ahead of the 2029 revaluation;
- Exploring the possible benefits of shortening the Antecedent Valuation Date (AVD) in the future; and
- Using the merger of the Valuation Office Agency (VOA) with HMRC to pursue administrative changes that help ratepayers.

1.8 There were 261 attendees across 20 roundtables and additional meetings with ministers and officials, who represented 230 organisations. There were also 161 pieces of written evidence submitted by 141 stakeholders. These stakeholders spanned a range of sectors, including RHL Business Representative Organisations (BROs), Non-RHL BROs, RHL Businesses, Real Estate, Infrastructure, Airports, Agents and Advisors, Small Businesses, Local Authorities, Large Non-RHL Businesses, and others.

Totals	**Written Submissions**	**Organisations Met With**
Business Representative Organisations (BROs)	62	42
Large RHL Businesses	16	52
Local Authorities	7	42
Agents and Advisors	9	22
Real Estate	13	17
Large Non RHL Businesses	3	18
Small Businesses	10	7
Other/Individuals	2	11
Tax Specialists	3	7
Airports	5	12
Infrastructure	11	0

1.9 The Discussion Paper was an open-ended call for evidence, enabling respondents to pick out elements of the system of particular interest. The feedback received from roundtable participants and written representations has been broad in scope.

1.10 While the breadth of responses meant consensus was limited, strong themes emerged. Stakeholders wanted to see better investment incentives within the system, greater predictability of future rates liabilities to enable accurate forecasting and inform investment decisions, and improved administration of the system.

1.11 Not everything discussed in this document will necessarily be taken forward, nor is it an exhaustive list of possible future changes to the system. Transforming the business rates system is a multi-year process, with a need for ongoing reform, and any reforms taken forward will be phased over the course of the Parliament to provide certainty for businesses and local government finance.

1.12 The Government recognises the importance of a system where everyone pays their fair share and remains committed to taking the necessary action to address business rates avoidance and evasion.

1.13 Final decisions will be taken in the context of the Government's objectives for the business rates system and its wider objectives, to ensure the sustainability of the public finances.

The Government acknowledges the importance of considering the impact on the local government funding system when considering reform options. The Government is delivering a full reset of the Business Rates Retention System in 2026-27, as part of its plan to deliver a fairer, simpler funding system that targets money where it is most needed. This reform will also deliver multi-year settlements to improve funding certainty and stability to help local authorities plan better for the future.

Chapter 2

Stakeholders' responses to the Discussion Paper

Tax rate and structure

2.1 Business rates are calculated by applying a multiplier (tax rate) to a property's RV. A standard multiplier is applied to properties with an RV of £51,000 or more and a small multiplier is applied to properties with an RV below £51,000. The standard multiplier is currently set at 55.5p and the small multiplier at 49.9p, though this is due to change from April 2026 to reflect the outcomes of the upcoming revaluation.

2.2 Stakeholders felt that the level of business rates liabilities can hinder businesses' capacity and motivation to invest. Some respondents from the real estate sector, tax advisors, and BROs called for an overall lower rate of tax, at 30-35p, closer to that of the multiplier when business rates were introduced in its current form in 1990. The Government notes that property taxes are one part of the UK's tax mix and should be seen in the round with other, internationally lower, business taxes such as Corporation Tax.

2.3 At Autumn Budget 2024, the Government announced an intention to introduce two new, lower multipliers for RHL properties with RVs below £500,000, funded by a new, high value multiplier for properties with an RV of £500,000 or above. These new rates will be set at Autumn Budget 2025, in the context of the fiscal environment and upcoming revaluation outcomes.

2.4 Alongside the rate of the tax, respondents highlighted that the way in which the current 'slab' structure of the system and the way reliefs operate could be reformed to reduce barriers to investment.

2.5 Business rates currently operate by applying the relevant multiplier to a property's entire RV to determine its rates bill – this can be known as a 'slab' method of calculation. This is unlike other areas of the tax system such as income tax and Stamp Duty Land Tax, which have a marginal rate of tax, where the tax rate is only applied to the proportion of taxable sum in that band, known as a 'slice' method.

Reliefs

Small Business Rates Relief

2.6 Small Business Rates Relief (SBRR) provides 100% relief for businesses occupying a single property with an RV of £12,000 or less, with tapered relief for properties with an RV between £12,000 and

£15,000. The relief is generally not available for ratepayers that occupy more than one property, subject to some specific exceptions.

2.7 Around 20% of respondents raised SBRR as an area of the business rates system in need of reform, including real estate agents, BROs and tax advisors. A majority of respondents who included SBRR in their submissions expressed support for this relief and pressed the importance of continued support for small businesses within the business rates system.

2.8 The most frequently requested amendment to SBRR was the uprating of the RV threshold so that the relief could continue to provide support to small businesses facing RV increases, and in some cases, so that a greater number of small and medium-sized businesses could benefit from support.

2.9 The second most frequently raised request was for the removal of the single property condition, which stakeholders reported as a ‘cliff edge’ in the system which disincentivises small businesses from expanding into additional properties.

Improvement Relief

2.10 Improvement Relief (IR) is designed to encourage investments in property by providing a 12-month relief for qualifying property improvements.

2.11 IR was the most consistently raised topic across the first phase of stakeholder engagement, featuring in around 40% of written representations and in 13 out of 18 roundtables. While stakeholders welcomed this relief, there was a broad consensus that the 12-month window did not provide sufficient incentive, due to investment cycles often spanning 3 or 5 years.

2.12 Many stakeholders also felt that the scope of eligible improvements needed to be expanded to include improvements made by those not in occupation of the relevant property. This 'occupation condition', stakeholders reported, excluded landlords from accessing the relief and in doing so barred a significant proportion of commercial properties from benefitting from this incentive.

2.13 Local authorities reported a lack of uptake and awareness of this scheme, indicating that the relief is not operating as effectively as it could.

2.14 A small proportion of stakeholders also requested greater alignment of IR with other Government objectives, such as decarbonisation efforts and green improvements, particularly from those within the infrastructure sector and BROs.

Empty Property Relief

2.15 Empty Property Relief (EPR) operates by providing owners of empty non-domestic properties with 100% relief for the first 3 months (or 6 months for industrial properties) after a property becomes empty.

If the property remains empty once the relief period ends, the owner must pay the property's full business rates liability.

2.16 Should the empty property be occupied again for a period of 6 weeks or more, it becomes eligible for another period of EPR when it falls empty again. The 6-week period of occupation required to be eligible for another period of EPR is known as the 'reset period'.

2.17 EPR was mentioned in almost 30% of written representations and elicited a broad range of views. Over 70% of local authorities advocated stricter conditions and lower generosity, while over 60% of real estate respondents were in favour of more generous relief.

2.18 One of the most common criticisms of EPR was that it does not sufficiently account for refit periods, does not provide adequate time for property owners to find new tenants for their properties, and requires landlords to pay rates on unprofitable buildings which they have not been able to lease. In response to these concerns, many stakeholders called for longer periods of EPR, lower empty rates, or both.

2.19 Local authorities, however, consistently highlighted EPR as an avenue of business rates avoidance and called for more tools to tackle avoidance, as well as stricter eligibility conditions, and discretion to withhold EPR. Some called for more stringent empty property disincentives, such as a premium rate on empty properties.

2.20 Further proposals for reform of EPR included a new scheme to incentivise businesses to occupy empty properties.

Other

2.21 Some respondents called for other elements of the reliefs system to be reviewed, such as SBRR for self-catering and holiday let accommodation and charitable rates relief.

2.22 Many local authorities called for greater administrative powers to award or withhold reliefs. Some stakeholders reported inconsistent application of reliefs.

2.23 Some respondents felt that a more fundamental review of reliefs is needed, to assess the efficacy of reliefs across the spectrum and to ensure value for money and effective targeting of relief at those most in need. Several respondents wanted to see the system simplified and the reliefs streamlined, or reduced in number, in return for a lower overall tax rate.

Uncertainty

2.24 Alongside the barriers to investment in the system, another major theme that emerged from engagement was the degree of uncertainty provided by business rates.

2.25 Revaluations themselves were a commonly raised topic among both written representations and roundtable attendees, with over 40% of submissions referencing revaluation frequency or outcomes.

2.26 Stakeholders reported an inability to predict what the outcomes of a revaluation and its consequences will be, with almost one-quarter of written responses calling for greater transparency over valuation methods used by the VOA, specifically noting a lack of awareness of how properties are categorised, and how methodology is applied.

2.27 There were also sector-specific concerns about the application of the methodology used to assess particular property types. A small number of sectors, including airports, reported that the receipts and expenditure (R&E) methodology can result in uncertainty and challenges in predicting change in RV, which has negative impacts on investment.

2.28 Where businesses are not content with a valuation they receive on a property, they have the option of appeal, using the 'Check, Challenge, Appeal' (CCA) system, in which a business must progress through the 'check', 'challenge', and 'appeal' stages. CCA was raised by almost a quarter of respondents, who requested that this process be streamlined to deliver prompt and accurate resolutions. Respondents noted that the process of appeal can be lengthy, resulting in businesses paying rates on contested properties for extended periods of time, and delaying investment.

2.29 Some stakeholders reported that adjusting the multiplier at revaluations creates uncertainty. In discussions about the redistributive nature of the current system, there were several calls for the removal of the revenue neutrality requirement to prevent fluctuations in the tax rate to offset changes in the value of the tax base, alongside a decoupling of the multiplier from inflation. Some roundtable attendees also suggested that this would be a fairer approach, as a property's tax liability would be determined only by the property's RV fluctuations, rather than broader scale changes to RVs across the country.

2.30 In conversations around the revenue-neutrality of the tax, local authorities emphasised the importance of a stable income stream from business rates as a priority, regardless of how tax liabilities are reached.

2.31 Some respondents expressed concern about the impact of other VOA workstreams, such the upcoming 'information duty'.

2.32 In addition to revaluation outcomes, valuation frequency was a commonly raised subject in both written representations and roundtables, appearing in over one-quarter of written representations across sectors.

2.33 Currently, the 3-yearly revaluation system provides ratepayers with a duration of stability throughout which they can forecast their future business rates to some extent. However, the duration of a revaluation cycle along with the 2-year AVD, means that by the end of a list, 5 years have passed since the time at which the properties were last valued and so valuations do not reflect the current economic conditions.

2.34 The Government previously shortened the revaluation cycle from 5 to 3 years to increase responsiveness in the system and ensure fluctuations in market values were better reflected in business rates calculations. However, as property values can fluctuate significantly at revaluations, ratepayers have reported that it is difficult for businesses to forecast their bills beyond the length of a revaluation cycle. Stakeholders argued that more frequent revaluations exacerbate this unpredictability, by increasing the regularity with which valuations may fluctuate and shortening the period of RV stability stakeholders have in between valuations.

2.35 The Discussion Paper invited stakeholders to give views on moving to more frequent revaluations and the trade-off between responsiveness and predictability. Responses to this aspect of the Discussion Paper were varied, with no strong consensus from stakeholders over whether more valuations should become more frequent. A slim majority of respondents who raised it were in favour of more frequent revaluations, with just under one-half against.

2.36 When a reason was given for those not in favour of more frequent revaluations, the primary two motivations were the need for stability and certainty in the system, as well as concerns over more frequent revaluations coming at the cost of less accurate valuations and greater strain on the VOA.

2.37 While revaluation frequency proved to be highly contentious, shortening the gap between the AVD and the start of the list was met with strong support from respondents across sectors. Many felt that this was a preferable approach to more frequent revaluations, as it increases responsiveness within the system, without shortening the current 3-year periods of stability.

2.38 Other responses which made reference to VOA processes were broad in scope, with a diverse collection of suggestions from stakeholders. There was little consensus on how stakeholders would like to see the VOA undergo reform, aside from more efficient appeals and greater transparency.

Chapter 3

Government response to the Discussion Paper

3.1 The Government recognises that recurrent taxes on the value of property are a longstanding feature of the tax system in England. In general, business rates raise revenue in a way which is less distortionary than some other taxes and they are a relatively efficient tax to collect.

3.2 However, it is clear that current features of the business rates system act as barriers to business investment. The Government is determined to remove those barriers and to encourage greater investment and growth.

3.3 The Transforming Business Rates Discussion Paper welcomed stakeholder views on the impact of business rates on investment, and the Government is grateful to have received extensive and varied responses about this element of the system.

3.4 **The Government considers there to be a case to explore a fundamental change from a 'slab' to a 'slice' system of business rates.** The Government wants to further explore how moving to a marginal tax rate system, where successive bands are taxed at increasing rates, may be beneficial for investment. We will be conducting further engagement with stakeholders about what this approach could involve.

3.5 **The Government will review how Small Business Rates Relief can better support business growth.** There is currently a taper out of SBRR eligibility, and a 12-month period in which a business can claim SBRR on their main property, having expanded into a second. The Government is considering options to go further to remove cliff-edges, although any changes to SBRR will need to be considered in the wider fiscal context.

3.6 **The Government will consider how Improvement Relief could be enhanced once more data is available.** The Government acknowledges stakeholder feedback that IR is an important relief to support ratepayers. IR was introduced on 1 April 2024 for a period of 5 years, and the Government will consider the case to address stakeholder feedback on it once more data is available to establish how it is currently being used.

3.7 **The Government will deliver a Transitional Relief package for the 2026 revaluation to support those seeing large RV increases.** The Government understands the upcoming 2026 revaluation has been a source of uncertainty for businesses. To protect businesses from large bill increases due to increasing RVs at a revaluation, the Government will confirm details of the package at Autumn Budget 2025.

3.8 The Government notes the specific concerns raised with regard to uncertainty and investment impacts in relation to the R&E methodology. **The Government will explore these concerns and will consider options to address these for the next revaluation.**

3.9 **The Government will use the merger of the VOA with HMRC to pursue administrative changes that help ratepayers.** The Government has already taken the first steps to deliver reform to the VOA, by announcing the merging of the VOA with HMRC. This will support the Government to deliver business rates changes more quickly and effectively and bring HMRC experience and ministerial oversight to bear in rolling out any changes.

3.10 **The Government is ruling out increases to revaluation frequency in order to provide businesses with certainty.** Revaluation frequency, although a commonly raised topic, did not have a strong consensus. Although a slim majority supported the move to more frequent revaluations, this needs to be balanced against the legitimate concerns of a significant number of respondents.

3.11 **The Government will explore the possible benefits of shortening the AVD in the future.** Stakeholders expressed a strong interest in shortening the AVD, and so the Government will explore this further as a potential means of improving the responsiveness of the system.

3.12 The Government recognises there was a broad range of views and issues in relation to EPR and so will continue to work with business property owners and local authorities to consider ways in which its effectiveness can be improved.

3.13 The Government recognises stakeholder concerns around the uncertainty caused by the multipliers being reset at revaluations in relation to how the RV base performs on aggregate. Whilst we will consider these concerns further, it is important to note that any move away from a revenue neutral system would need to be balanced against the need to ensure that local government funding is protected and would need to be considered in the context of the current fiscal picture.

Chapter 4

Next steps

4.1 The Government will provide a further update at Autumn Budget 2025 on its plans to reform the business rates system. At that fiscal event, the Government will also confirm the rates for its permanently lower tax rates for RHL properties with RVs below £500,000 from April 2026, and the rate for the high value multiplier to fund this.

4.2 The permanently lower tax rates for these RHL properties recognise the challenge that business rates can place on property-intensive sectors and fulfil our manifesto commitment of supporting the high street. These lower tax rates will provide greater certainty for those RHL businesses, supporting their investment and growth. These measures are the first steps the Government is taking to transform the business rates system.

4.3 This report sets out some of the key areas the Government will focus on for future business rates reform, following feedback from stakeholders. These areas do not represent policy decisions but rather indicate where the Government will prioritise further exploration of policy options.

4.4 We will explore measures that remove barriers to investment and provide certainty, by further engaging with stakeholders on: moving from a 'slab' to 'slice' system; enhancing SBRR to more effectively support investment and expansion among small businesses; considering the case to enhance IR once more data is available; addressing stakeholder concerns over the R&E methodology ahead of the 2029 revaluation; and exploring the possibility of shortening the AVD in the future;

4.5 By the end of this financial year, the functions of the VOA will have been moved into HMRC. This will strengthen direct accountability to ministers, helping to support the delivery of the Government's commitments to reform business rates and modernise the tax system. As part of this, the Government will engage with ratepayers over what administrative improvements they would most benefit from.

4.6 As set out in the Discussion Paper, the Government will continue to work with stakeholders to design changes to the business rates system. The Government will now undertake a second phase of targeted engagement with relevant stakeholders, with a specific interest in the areas of interest listed in this report. This engagement will take place shortly to inform policy decisions ahead of Autumn Budget 2025.

4.7 Across all the different workstreams within business rates, the Government will ensure that policy changes appropriately balance competing Government priorities, including the Growth Mission, fiscal pressures and local government finances.

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This document can be downloaded from www.gov.uk

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