The Budget / Next Steps for Business Rates Reform

Associated announcements relating to Business Rates:

Last week the Chancellor announced a number of welcome initiatives in his Spring Budget Statement, which included:

- backing business with a major overhaul of corporation tax reliefs, a lower corporation tax rate and a big reduction in small business rates
- cutting business rates for all properties in England, with 600,000 small firms paying no rates so that the business rates burden will fall by £6.7 billion over the next five years
- extending the doubling of small business rate relief to April 2017, meaning that over 400,000 properties continue to receive 100% business rates relief

The detailed proposals included:

- Permanently doubling Small Business Rate Relief (SBRR) from 50% to 100% and an increase the thresholds to benefit a greater number of businesses. It is estimated that some 900,000 will benefit from lower business rates.
- Businesses with a property with a rateable value of £12,000 and below will receive 100% relief.
- Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all – a saving worth up to £5,900 in 2017-18. An additional 50,000 businesses will benefit from tapered relief.
- Increasing the threshold for the standard business rates multiplier to a rateable value of £51,000 from 1/4/2017, taking 250,000 smaller properties out of the higher rate. This will reduce business rates for many small businesses – including some high street shops

Retail Prices Index v Consumer Prices Index

The Government announced that from April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI to CPI. The Government estimates that in 2020-21 alone it is worth an estimated £370 million to businesses and the benefit they predict will grow significantly thereafter. It is stated that the move is consistent with the government's previous commitment to consider moving the indexation of indirect taxes from RPI once fiscal consolidation is complete.

Devolution Revolution

The Government has already announced measures to introduce powers to devolved regions and the measures announced in the Autumn Statement 2015 set out a number of proposals:

- allow local government to keep the rates they collect from business,
- give councils the power to cut business rates to boost growth, and give elected city-wide mayors the power to levy a business rates premium for local infrastructure projects – with the support of local business.
- Local government will be compensated for the loss of income as a result of the business rates measures

- the impact will be considered as part of the government's consultation on the implementation of 100% business rate retention in summer 2016.

The government has restated its aspirations to change the way the country is run, rebalancing the economy for the next generation through a devolution revolution. Local leaders are taking on radical new powers and responsibility for driving local growth through historic devolution deals, retention of business rates and further targeted investment in response to local priorities.

GL Hearn comment:
We have concerns about how this agenda is to be implemented and, at a recent evidence session to the Communities and Local Government Select Committee, Andrew Hetherton set out concerns about the complications that may follow for many businesses in what is already an overly complex area of work. Details of the evidence session can be found at:
http://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/news-parliament-2015/business-rates-evidence-15-162/

The government will pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region and will increase the share of business rates retained in London. This aim is to develop the mechanisms that will be needed to manage risk and reward under 100% rates retention and will help authorities to build financial capacity to reform core services and invest in long term economic growth from 2017 – three years ahead of schedule. The offer is open to any area that has ratified its devolution deal.

The government also intends to increase the share of London's business rates retained by the Greater London Authority and transfer responsibility for funding TfL's capital projects. This will give the Mayor of London control over almost £1 billion more of locally raised taxes. The government will also explore with London options for moving to 100% business rates retention ahead of the full roll-out of the business rates reforms.

Support for Local Newspapers and Public Conveniences

Additional minor reliefs were announced to support local newspapers and public conveniences. The government will introduce a £1,500 business rates discount for office space occupied by local newspapers in England, up to a maximum of one discount per local newspaper title and per hereditament, and up to state aid limits, for 2 years from 1 April 2017. Local Authorities in England will be allowed to use their discretionary relief powers to support publicly owned public lavatories from 1 April 2018.

The longer term future of Business Rates

During the course of the last few years there have been extensive discussions and consultations about the future of business rates and the changes needed to reform the system. The Budget 2016 was no exception as it included further announcements with the aim of modernising the administration of business rates to revalue properties more frequently and make it easier for businesses to pay the taxes that are due:

- the government will aim to introduce more frequent business rate revaluations (at least every 3 years) and will publish a discussion paper in March 2016 outlining options on how to achieve this to support both businesses and the stability of local authority funding (see below)

- the government will transform business rates billing and collection. By 2022, local authority business rate systems will be linked to HMRC digital tax accounts so that businesses can manage their rates bills in one place alongside other taxes. As a first step, the government will work with local authorities across England to standardise business rate bills and ensure ratepayers have the option to receive and pay bills online by April 2017
- once local authority and HMRC systems are linked, the government will consider the feasibility of replacing SBRR with a business rates allowance for small businesses – this would be applied to a business's total property portfolio across local authority areas allowing businesses that grow and acquire more property to benefit from relief

Responses to the Reform Agenda

A series of announcements were made in the Budget statement also made about the longer term review of business rates. DCLG has now published details of the summary of responses received as part of the long-term review of business rates in England in March 2016.

The main points highlighted by the government of the review responses were:

- The majority of respondents were in favour of retaining a property based tax.
- Respondents agreed with the government's view that property based taxes were easy to collect, difficult to avoid and that they had a clear link with local authority spending.
- Some large retailers and small businesses suggested alternative tax bases. Large retailers suggested that a tax on margins or Gross Value Added should be considered while some small business respondents suggested a turnover or local sales tax.
- Local authorities came out strongly in favour of retaining a property tax, based on rental values but also highlighted that changes to indexation would have to be considered in the context of local government financing.
- Business respondents suggested that if business rates are updated by inflation, then the indexation should be in line with the CPI
- The majority of businesses wanted more frequent revaluations. Whilst businesses realised this would not necessarily lead to lower bills for many ratepayers even if rateable values decreased, they felt this would make the system more responsive to relative changes in rent and fairer as a result. There were some that called for annual revaluations be the ultimate goal, but a 3 year revaluation was felt to be the most sensible time period.

The Government now intends to work towards a number of changes which will modernise the approach to business rates including:

- **Modernisation** - by working with local authorities in England to standardise business rates bills by 1 April 2017 and ensuring that all ratepayers can receive bills and make payments online by 1 April 2017 and ensure that all local authority billing and collection systems link with HMRC digital tax accounts by 2022.

- **Valuation reform** – by aiming to introduce more frequent (at least 3 yearly) revaluations of properties in England for business rates purposes discussion paper has now been published outlining options to deliver this.

Revaluation Reform – the next steps

An overview of the issues concerning revaluation reform has now been published as a discussion paper by HM Government. We attach this hereto for your information.
Responses to the document need to be submitted by 8th July 2016.

The paper sets out some background to the current system and aspects of the challenges of delivering more frequent revaluations under the current system. It comments on the particular stages of the valuation process which would need to be reformed in order to make more frequent valuations possible. Three options have been put forward for discussion:

More regular: **three yearly revaluations** under the current system. The issues include:

- The effect of more frequent revaluations on the appeals process and how this is managed – it is likely to reduce the savings derived from a particular appeal and will present a challenge for reviews to be done over a shorter period of time.
- There are concerns about an increased risk of more appeals and how could this be avoided or managed
- Consideration would be needed re accessing the skills to deliver more frequent revaluations perhaps through the use of automated valuation models and the need to collect and analyse relevant information and how this would need to involve ratepayers and their agents

An alternative **self-assessment alternative** has also been suggested which would include:

- The potential compliance regime that would be needed under self-assessment and the need to change the Valuation Officer's statutory duties under such a regime
- The publishing of rental information by the VOA to assist ratepayers or their agents in preparing self-assessments
- The publication of rateable values of all properties under a self-assessment and this may particularly affect those whose assessments are based on a receipts and expenditure method. It may also present a challenge for small businesses when having to apply a contractor's method of valuation which can be complex.
- The role for ratepayers in the process and concerns about how smaller businesses (and those who do not wish to instruct an agent) would cope with self-assessment

Government has also raised the prospect of a revaluation by **formula alternative** which might include:

- A move away from the existing direct link to market values to a system based on indexation
- The classes of property that would be suitable for a formula approach
- The factors that would need to be included in the formula beyond class of the property, size of the property and location
- The balance of efficiency, simplicity and certainty that a formula approach would provide against any desire to retain valuations that take greater account of the individual characteristics of properties
- The implications for different sized businesses

GL Hearn comment:
The government has put forward some interesting ideas and we can envisage there being some attraction to a self-assessment agenda but we are anticipating little, if any enthusiasm from ratepayers for a formula based approach to revaluations. This would seem to bring the

worst of all worlds in terms of a link to market values and a regular re-balancing of ratepayer liabilities as well as a virtual removal of the ability to appeal such changes. Over time, the link between business rates as a property tax and the actual property being occupied would undoubtedly be diminished or even lost.

To contribute your views, written submissions (up to 5Mb) and research should be sent to valuationdiscussiondocument@voa.gsi.gov.uk - The deadline for contributions is Friday 8 July 2016

During the course of the next few weeks we will be raising these issues at client meetings and discussing with you the various alternatives. GL Hearn will be preparing its own formal response and will offer assistance to you should you want to prepare your own response.

For further information please contact Andrew Hetherton (andrew.hetherton@glhearn.com), Richard Williamson (richard.williamson@glhearn.com) or your usual GL Hearn contact.

Andrew Hetherton
Head of Business Rates, GL Hearn