COUNTRYSIDE ALLIANCE BRIEFING NOTE

BUSINESS RATES

House of Commons, Adjournment Debate

"Reform of business rates" (Sir Geoffrey Clifton-Brown MP, Con, The Cotswolds)

Tuesday 2 April

Background:

- Business rates raise about £30bn for the Treasury each year, of which £8bn is paid by retailers. They are based on "rateable values" calculated every three years according to the premises rental values, and a multiplier that rises annually in line with inflation.

- The retail sector accounted for 5 per cent of the UK economy's gross value added, but paid 10 per cent of all business taxes and pubs are responsible for 0.5 per cent of turnover of the UK economy but pay 2.8 per cent of business rates.

- Business rates are viewed by many as an outdated and archaic system which is not fit for purpose in this dramatically different business environment.

How business rates are worked out

- Rateable values were historically assessed at five-year intervals by the Government's Valuation Office Agency (VOA) using the rents prevailing two years earlier. However, a revaluation exercise in 2015 was delayed by two years, during which time rents in some parts of the country rose rapidly. When commercial properties were revalued in 2017, many tenants saw big increases in rateable values.

- A system of reliefs was implemented to cushion the impact of the rises, but this was paid for by limiting the pace at which business rates could fall. Future revaluations will now take place at three-year intervals, to better link calculations to movements in rental values. The multiplier, currently 49.3p per pound of rateable value, now rises in line with consumer rather than retail prices.

- Until 2013, local authorities collected business rates but remitted them to the Treasury, which then issued revenue support grants to councils. Currently, councils keep half of the business rates paid by companies but get lower support grants. By 2020-21, the Government intends that councils keep three-quarters of business rates.

Problems with the current system

- Land values are changing at a rapid pace, so even assessing these every three years leaves many businesses paying over (or under) the odds for lengthy periods of time. It also creates cliff-edges for businesses upon each revaluation - ones which are difficult to predict, given the volatility of the multiplier.

- There is an unequal playing field for bricks and mortar businesses versus online ones. The inequality in businesses can be seen by the fact that a company like Amazon - with

189 sites across England and Wales – was liable for just £38 million in business rates last year, despite generating £9bn in sales. While House of Fraser - with only 59 UK locations - paid £36 million in business rates, despite turnover of less than £1bn.

- Some pubs have seen a 25 per cent increase in rateable values across the board, which for pubs is based on property value and turnover. The Government needs to recognise and understand that in many instances this means they are taxed on success, with those in areas of higher property value disproportionately impacted.

- The landlord of The Boot pub in St Albans, claims his rates bill is set to soar by 280 per cent over five years from £14,000 a year to £52,000. They will have to sell an additional 22,000 pints of beer a year just to pay for the increase. Around one-third of the cost of a pint in a pub is made up of one tax or another. Many pubs are facing increases in the amount they pay in business rates and ultimately, it will be the consumers who pay the price as publicans are forced to put up prices or shut up shop.

Government measures - Budget March 2017:

- £435 million of support for businesses facing significant increases in business rates, including:
  - support for small businesses losing Small Business Rate Relief to cap rate rises to £50 a month (£600 per annum)
  - £300 million of discretionary relief to English local authorities to allow them to provide support to individual hard cases in their local area
  - £1,000 business rate discount for public houses with a rateable value of up to £100,000

Government measures - Budget November 2017:

- **Rate relief for pubs** – Continue the £1,000 business rate discount for public houses with a rateable value of up to £100,000.

- **Valuation assessments –** Increase the frequency of Valuations Office Agency (VOA) revaluations of non-domestic properties to every three years, the next revaluation is due in 2021.

- **Business rates retention** – Continue to pilot additional business rates retention for councils across England.

Government measures - Budget 2018:

- **Business rates** – premises with a ratable value of up to £51,000 will receive one third off their business rates for the next 2 financial years.

- **Rateable values** – Valuation Office Agency will review ratable values in 2021, in line with the Government's commitment to 3 year revaluations.

- **Digital tax** – a digital services tax of 2 per cent on UK revenues of "tech giants" generating £500 million with a revenue of over £500 million per annum.

- **Future High Streets Fund** – a new £675 million fund was announced for councils to redevelop struggling high streets.

Countryside Alliance position:

- The 2018 Budget contained welcome news for small businesses with an announcement that premises with a rateable value of up to £51,000 will receive one third off their business rates for the next 2 years, and a commitment that rateable values will be reviewed in 2021. However, this is a long way short of the full review of business rates called for by the Countryside Alliance ahead of that Budget which is needed to address the growing unfairness of this tax and the financial burden it places on businesses with a large footprint such as garden centres and equestrian businesses. Business rates remain a source of grievance for many rural businesses, particularly with the growth of online retailing which has increased the need for reform of the current system.

- We were disappointed when the Chancellor, Rt Hon Philip Hammond MP, stated in a letter to the Treasury Select Committee last year that there will be no reform of business rates until he has considered reforming other corporate taxes. The Chancellor acknowledged in his 2018 Budget speech that it is “clearly not sustainable or fair” that businesses operating from digital platforms pay less or no tax compared to traditional business models and we welcome his commitment to establishing a UK digital services tax, but this will only apply to “tech giants” with a revenue of over £500 million per annum. While this is a step in the right direction, it will not help create parity between small and medium sized businesses that trade online or offline.

- We have seen many small businesses across the country hit with business rate rises, up to as much as 300 per cent, particularly businesses requiring a large footprint. We welcomed the proposals announced in the 2017 November Budget to provide additional support to small businesses to the tune of £435 million. However, we have heard criticism that these funds have been slow to be distributed. This is also only a temporary solution and does not address the long-term problem of business rates and businesses need certainty if they are to be able to invest and plan for the future.

- High streets are often at the heart of communities as the Chancellor acknowledged in his 2018 Budget speech, but they are also experiencing considerable challenges with the growth of online retailing, large tax burdens, and changing consumer habits. We welcome the new Future High Streets Fund announced in the 2018 Budget to improve access to high streets and town centres and facilitate the redevelopment of empty commercial areas into homes and offices. We hope the Treasury will ensure this money is spent evenly between rural and urban councils. Rural town centres are facing specific challenges with reduced transport services, bank branch closures, and an ageing population. We would like to see more from the Government about what they are doing to address the challenges in rural areas, particularly action to maintain and improve access to banking services in rural town centres.

- We need long term solutions to ensure that all small businesses in rural areas remain viable rather than piecemeal ad hoc measures.

- There have been some improvements to the business rates system, such as the switch from retail to consumer prices inflation in calculating the annual increase in the multiplier, and the introduction of more frequent revaluations. However, a tax based on output rather than input would still be more equitable.

- Separately, a study concerning the future of the high street concluded that the business rates system is accelerating shop closures in many towns.

- We have barely scratched the surface of the online revolution, yet the UK boasts key competitive advantages in many, many digital industries. To ensure we build a dynamic economy moving forward, it is vital that we do not resort to suffocating or stifling online businesses in a well-intentioned bid to level the playing fields. Instead, we should welcome our digital prowess. But we must also give our much-loved small businesses a leg-up by reforming this unfair tax.

Countryside Alliance calls for:

- **A full-scale review and reform of business rates to ensure we have a system which enables rural businesses to compete fairly with those online. Businesses need long term certainty if they are to be able to invest and plan for the future.**

- **An extension of the £12,500 rateable value threshold for rural rate relief to allow larger footprint businesses to qualify for support.**

- **A two-year freeze on the multiplier to enable a full review of business rates and a wider industry discussion on taxation – including online and offline businesses. A freeze would save retailers, many of whom are struggling with rising costs, weakening consumer sentiment and a structural shift to online shopping, about £500m over the period.**

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