CBI

Conference Series:

BUSINESS RATES

London | 8 May 2019

What did we learn and what are the next steps?

Together with partners the International Property Tax Institute, Arup and Eversheds Sutherland, the CBI business rates conference bought together politicians, business, academics and international experts to provide insight into the challenge of the current business rates system and set out ideas for alternatives.

Key takeaways

The conference provided new insights into why the business rates system in its current form is not fit for purpose, and how international best practice can help to inform the CBI's recommendations ahead of the Autumn Budget.

The conference can be summarised into five key takeaways:

1. Exemptions and reliefs can create avoidance and evasion of business rates

One of the principles of local taxation is that it should be difficult to avoid and evade. Business rates is often cited as one of the taxes that easily meets this principle given the difficultly in hiding a property. However, some landlords can exploit reliefs and exemptions to either reduce their business rates bill or avoid paying business rates altogether.

There are several examples where landlords are wrongly declaring the use of their property in order to benefit from a specific exemption or relief. This is becoming more apparent with empty properties, where it is more beneficial to wrongly disclose the property's use and receive an exemption than to claim empty property relief. One example is an empty warehouse being disclosed as a snail farm. A snail farm would be eligible for the agricultural exemption, whereas empty property relief would only provide a 3-month exemption from business rates. A second example is a golf course that is eligible for the agricultural exemption on the rough, reducing the business rates bill liability on the total property.

2. The experience differs across sectors

Hearing from the business speakers highlighted that there are several common challenges across sectors, but the impact of these challenges can be quite nuanced.

One key issue for business is the lag between revaluations which means business rates bills do not reflect true market conditions. In the hotel sector, the trading environment is a volatile one with a discretionary 'product' both on the corporate as well as the leisure side. The point of time at which revaluations are made, might not be reflective of the next 3-4 years in that industry. While for retailers, transitional arrangements mean stores in areas where the rateable value has decreased do not get to benefit from lower business rates, sometimes resulting in store closures. For one retailer, most of their stores are paying more in business rates than they are in rent.

In partnership with — INTERNATIONAL PROPERTY TAX INSTITUTE

Corporate partner — ARUP

Host partner — EVERSHEDS SUTHERLAND

Another challenge for business is the impact of business rates on investment. Any improvements or upgrades to a building result in a higher business rates bill. The hospitality sector is often faced with a binary choice to reduce costs or save because of the cumulative burden they face partly due to high business rates. That choice is often between cutting staff numbers or cutting investment, with the latter being the obvious one. For the retail sector, transitioning to a low carbon economy is made more difficult with business rates as increasing their premises energy efficiency or investing in electrical vehicle charge points outside stores would be subject to business rates and lead to a higher bill.

3. TSC inquiry expecting to provide clear recommendations for change to Government

The TSC inquiry has received a significant amount of submissions from businesses and academics around the country. It is therefore clear that business rates are a critical issue. A key area that has stood out during their evidence sessions has been that the system is outdated and needs to better keep pace with developments in the modern economy.

The TSC are looking into possible alternatives to business rates, including a land value tax, and how business rates can better support local funding. Some local authorities can more easily drive increases in their business rates revenue, whereas local authorities in relatively more deprived areas find this more difficult. Therefore, the TSC are looking at whether there is a way to make business rates retention work for all local authorities.

Delegates were disappointed by the business rates recommendations put forward to the Government following the MCHLG inquiry into the high street and the Government's response to this. The TSC, however, are confident that they will be able to provide a set of concrete recommendations to Government that ensure the Government recognises the challenge and considers possible options for reform.

4. International evidence shows that the UK is not alone in this challenge, but there are better ways to tax property

International experience shows that a property tax is a good tax for local authorities as it is immovable, visible and accountable, but it is costly to administer, does not automatically grow in line with the economy and may not be appropriate to pay for all local services.

The balance between business and residential is out of kilter in many countries. Business properties tend to use fewer public services than residential properties but often pay considerably more towards local taxes. However, reforming property tax is very difficult as often political considerations outweigh economic principles.

The structure of property taxation is not determined using a simple tax base multiplied by a tax rate formula. Various exemptions, reliefs and other elements make the system much more complex and distortive. The structure of property tax around the world can differ significantly:

- **The tax base**: Properties are valued in different ways across the world either according to the market value, the rental value, the area/unit value or by self-assessment, with a general move towards value taxation. However, it is too common to have reassessments every 4-5 years.

- **Tax rate:** The rate varies by the type of property e.g. residential, commercial, industrial, farms. The tax rate is also often different for small and lager businesses but there are differences in how a small business is defined e.g. based on value, square footage, size.

To mitigate the impact of infrequent reassessments, there are similar systems to transitional arrangements around the world, but this favours those who are doing well because of the market but penalises those who are not doing well, favouring stability over equity and efficiency.

A good property tax system should have the following elements:

- Exemptions should serve a clear economic or social purpose
- Annual reassessments
- Simplified tax rates
- Tax relief through tax credits or deferrals

5. Reform should be considered within the suite of business taxation as well as property taxation

Annual revaluations are high up on the list of solutions, as this would ensure business rates better reflect a business' ability to pay. International experience shows that annual assessments are more easily understood by taxpayers, help to maintain equity in the system by ensuring the relative differences stay the same and reduce the shock from reassessment. Hong Kong and British Columbia have annual revaluations.

However, it was clear that annual revaluations would only be part of the solution and do not go all of the way to solving the business rates challenge. Reform to the business system should consider the following aspects:

- Lowering the multiplier
- Widening the tax base
- Reducing the number of appeals
- Levelling the balance between business rates and council tax
- Levelling the balance between business rates and other business taxes
- Alternative sources of revenue

What are the alternatives?

- **Land value tax:** 75% of commercial property value in England is land. This would support the regional disparities and would tax owners instead of occupiers. It would also remove 50% of SMEs from the scope. However, land value is difficult to estimate as owners do not typically know the value of their land but do know their property value.
- **Online sales tax:** An online sales tax could be introduced to compensate for a reduction in business rates. Research shows that a levy on online sales could pay for a 20% reduction in business rates in the retail sector, which will have a huge impact on retailers with a physical presence.
- **Increase in VAT:** Business rates could be removed, and the lost revenue raised by increasing the VAT rate. However, this is likely to be politically undesirable and would mean that commercial properties are not contributing towards local authorities.
- **Maintain corporate tax at its current rate:** Cancelling the corporate tax roadmap would help to raise additional revenue to go some way to paying for a reduction in business rates.

Next steps

This conference has had a huge external impact and the CBI will continue to get the messages out there for change. As part of this, the CBI will be developing a position on what the direction of travel for reform should be which will form part of its submission to the Government ahead of the Budget in the Autumn. Working closely with the conference partners, the Government, the VOA and businesses, the CBI are keen to reach a solution that is fair and sustainable.

Please get in touch with Megan Baddeley if you would like to be involved with this work.