# CBI SCOTLAND RESPONSE

## Barclay Implementation: A consultation on non-domestic rates reform

CBI Scotland welcome the opportunity to respond to the consultation on implementation of recommendations from the Barclay Review on non-domestic rates.

The CBI is the UK's leading business organisation, speaking for some 190,000 businesses, across all sectors and sizes, operating across the UK. CBI members directly employ at least 500,000 people in Scotland, which represents a quarter of the private sector workforce. This includes companies headquartered in Scotland as well as those based in other parts of the UK that have operations and employ people in Scotland.

## Overview

Business investment is a key enabler of productivity and economic growth now and in the future and the Barclay Review remit of 'better supporting business growth and long-term investment' reflects what is needed in the economy more broadly, not just within the non-domestic rates (NDR) system.

The UK as a whole has under-performed on business investment since the late 1990s, particularly compared to other advanced economies - business investment accounting for 9% of GDP, compared to 13% across the G7.[1] It is therefore particularly welcome to see actions taken like the Business Growth Accelerator that aim to encourage more investment in Scotland. Equally the switch from RPI to CPI has been welcome and something business has called for. We encourage the Scottish government to make clear the switch is for the long-term.

The growth accelerator is a prime example of how NDR can be used as a lever by government to encourage more investment that lead to broader benefits from increased economic activity through jobs creation and more vibrant local communities.

Non-domestic rates must be considered in the context of the Scottish economy as a whole, not in isolation. Rates policy should be seen as part of an economy-wide strategy that aims to create a vibrant and competitive environment for business to grow and invest.

Key priorities for Scottish rates policy should be to bring the Large Business Supplement into parity with England to avoid losing potential investments out of Scotland and halt actions that send the wrong message and discourage investment such as opening up for additional local levies on business.

More efforts must be spent on supporting transparency and early engagement within the NDR system by allowing more time for engagement between ratepayers and assessors prior to valuation. With the welcome change to three yearly revaluations, ratepayers and assessors will need to work together to develop a more transparent system that encourages openness between the two parties, rather than soliciting of third-party information.

### Key messages

- **The Business Growth Accelerator is a welcome relief and needs consistency and stability to encourage much-needed business investment.**

- **The shift to three yearly revaluations will help better align NDR with market conditions and need to go hand in hand with appeals reform that supports more transparency and early engagement.**

- **Imposing additional local levies will not solve issues related to global online business and will instead undermine the objective of better supporting local business growth and long-term investment.**

- **Transparency of information should be at the core of the NDR system and will depend on open and direct collaboration between ratepayers and assessors.**

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[1] CBI, *Catching the Peloton: The business investment race and how the tax system can help the UK to catch-up*, August 2018

## Business Growth Accelerator (#1)

1. The Business Growth Accelerator is a welcome relief that can encourage investment and is a policy being noticed elsewhere in the UK for its potential.
2. It will be a positive step to move the relief from being application-based to automatic eligibility as that will reduce the administrative burden, ensure it is consistently applied across all local authorities and create more awareness in the business community about the accelerator.
3. Efforts should also be made to increase awareness of the relief among businesses thinking of making considerable investments, especially through investment support agencies like Scottish Enterprise.
4. Business investment planning takes a number of years and are best encouraged through consistent and stable business tax policy. The Scottish government should therefore provide certainty through the legislation by committing to making the growth accelerator consistently available for a longer period of time.
5. Rather than focusing on future flexibilities to decrease the relief, the government should instead consider potential foregone revenue as deferred revenue that will manifest itself through increased economic activity in local communities, as well as in increased future rateable values (RVs).
6. If revenue loss is a concern, the government should instead further clarify the definition of eligible 'improvement' investments for the growth accelerator in a transparent and consistent way that encourages relief for investment and growth-led redevelopments of commercial properties alongside new build developments.

## Three yearly revaluations (#2)

7. More frequent revaluation has been called for and subsequently welcomed by a range of stakeholders to ensure NDR valuations more accurately reflect market conditions, as was recognised in the Barclay Review.
8. It is clear that the shift to three yearly valuations will need to go hand in hand with appeals reform and transparency of information and depend on resource available to assessors, both with regards to technology and time.
9. Currently the limited notice given to businesses receiving their RV in Scotland continues to be a challenge compared to systems in England and Wales providing draft ratings six months before revaluation.
10. The Barclay Review set out a range of recommendations to address the administrative burden to ratepayers and assessors and businesses will be encouraged that work is currently being taken forward without the need for legislation.
11. The focus on digital solutions to aid ease and transparency of information-sharing between ratepayers and assessors is welcome. While there is recognition that success requires time and collaboration, the 2022 valuations provide a practical timetable for digital roll-out and completion.

## New council power to impose an additional levy (#5b)

12. While seeing the growth accelerator as a welcome addition to the Scottish rates system to support investment, it is regrettable that the same system also risks undoing such efforts by sending what will appear to be the exact opposite message to businesses by threatening to impose additional levies.
13. It is right to explore ways to support ailing retail businesses in town centres and it is understandable that the Scottish government is grappling with shared challenges of how to respond to changing consumer preferences for online retail and global online businesses.
14. It should be noted that NDR does not hold the complete set of solutions necessary to aid struggling town centres as support will also have to be enacted with regards to accessibility for customers, both in terms of cost and convenience.
15. The Barclay Review noted that using NDR as a tool to ensure fair contribution from the digital economy "would be inefficient" and that "attempting to crowbar a property tax upon some businesses that do not rely on property is not only counter-intuitive, but will also likely lead to significant unintended consequences".[2]

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[2] *Report of the Barclay Review of Non-Domestic Rates*, 22 August 2017

16. The issue of taxation in the new digital economy is being debated across the world's developed economies with the OECD[3], the EU[4] and the UK government[5] attempting to find multilateral and unilateral solutions for how to tax global online business.
17. The Scottish government will not be able to unilaterally address such complex issues by giving local councils the ability to impose an additional levy on "out of town businesses (perhaps retail) or predominately online business (such as distribution centres)".
18. What an additional levy would do is hit a range of local businesses across Scotland that are doing their best to contribute to their local economies:
    a. It would hit businesses located out of town centres due to requiring more space, which means they are already struggling with the Large Business Supplement as their premises may be valued at above £51,000.
    b. It would hit business parks where councils are providing the space and facilities to attract a range of companies to operate in areas where there have been limited business activity in the past.
    c. It would hit traditional businesses with commercial property and a growing online presence as they are developing their business to respond to customers' needs.
    d. It would disadvantage rural businesses and those in remote locations, such as the islands, many of which are dependent on online business trade.
    e. It would discourage farmers considering diversifying their business and income streams through online options as they would likely be caught under a definition of out of town business.
19. An additional levy would in short create more complexity, unpredictability and cost to a wide range of businesses that are already working hard to contribute to their local communities.
20. While the Scottish government is not alone in wanting to address the issue of global online business and taxation, the Scottish NDR system does not hold the unilateral solution. By potentially using it as such the government risks a wide range of Scotland's hard-working businesses becoming collateral damage and it would contradict efforts to better support business growth and long-term investment.
21. If the Scottish government is determined to proceed with what many will describe as an economically damaging policy, a range of safeguards would have to be put into legislation.
    a. Clarity and accountability on where funds from additional levies would go and how that would be put in aid of town-centre businesses, such as ring-fencing funds to directly support town centre non-domestic rates payers.
    b. A statutory cap on the level of additional levies imposed would be necessary to provide some certainty to businesses likely to be affected by it.
    c. Pilot schemes introducing the additional levy should have a time-limit and would need Ministerial approval to provide strategic oversight of how they are applied and mitigate risks of where additional levies may have particularly adverse effects on local economic activity.
    d. Local councils bidding to become a pilot area for additional levies should be required to consult all businesses due to be hit by increased NDR bills prior to approval and to include findings from consultations in their business case to government.
    e. Clear objectives would have to be set for what the pilots should achieve, alongside formal evaluation of the pilots prior to any decision to roll out the power to impose additional levies more widely.

## Provision and collection of information (#13)

22. The Barclay Review called for more transparency and consistency of approach from assessors and that is relevant when it comes to provision and collection of information as well.
23. The issue of non-provision of information applies to both ratepayers and assessors, with ratepayers long having asked for clear and timely information to be made available of the methodology used for RVs to estimate their future costs and to allow assessment of whether an appeal is considered necessary.

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[3] OECD, *Tax Challenges Arising from Digitalisation – Interim Report 2018*, March 2018
http://www.oecd.org/ctp/tax-challenges-arising-from-digitalisation-interim-report-9789264293083-en.htm
[4] European Commission Proposal, *Fair Taxation of the Digital Economy*, March 2018
https://ec.europa.eu/taxation_customs/business/company-tax/fair-taxation-digital-economy_en
[5] HM Treasury position paper, *Corporate tax and the digital economy*, March 2018
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/689240/corporate_tax_and_the_digital_economy_update_web.pdf

24. Transparency of information between ratepayers and assessors should be sufficiently addressed before considering how assessors might collect further information from a wider range of bodies beyond the proprietor, occupier or rating agent.
25. Questions would also need to be answered with regards to the ratepayer's notification of information being sought from third parties, the content of the information subsequently received and how it will be used in assessing their RV.
26. While the move to civil penalties is understandable, consistency across Scotland will be required with regards to the definition of non-provision of information warranting a fine, who would collect the fine and what the funds would be used for. Once those issues are clarified the penalty should be fixed across Scotland and a mechanism of appeal would need to be put in place to allow challenge.

## Reform of the appeals system (#19)

27. It is important to emphasise that ratepayers have a right to challenge a valuation assessment and that the current restrictive time-limits for lodging appeals lead ratepayers to protectively use the appeals system in order to be have the ability to challenge a valuation.
28. Appeals reform should therefore aim to facilitate more fundamental change to help openness and transparency, not only focusing on ways to reduce the number of appeals lodged by adding financial risk to ratepayers.
29. The six-month foresight of draft RVs provided to businesses in the rest of the UK should be made a priority in Scotland, which will help address the need for protective appeals.
30. Legislation should therefore also consider how ratepayers can be provided with early RVs to allow them to examine the information, including the methodology of how the estimate was made, and thereby reduce the need to lodge protective appeals.
31. If the change is made to allow appealed valuations to increase and decrease, it becomes even more important to ensure ratepayers have early sight of RVs.

**CBI Scotland**
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