The business rates revaluation

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What are business rates?

Business rates, or non-domestic rates are a tax based on a property's "rateable value" set by the Valuation Office Agency (VOA).

How are they calculated?

The rateable value represents the open market annual rental value of a property at a set point in time.

For some unusual properties for which there is insufficient evidence of open market rental values such as renewable energy, the VOA may use one of two other methods: Receipts and Expenditure or Contractor's Basis.

The rateable value is then multiplied by a multiplier expressed in pence per pound set by central government. Every year this multiplier is raised by a maximum of the inflation rate as measured by the Retail Price Index (RPI) from the previous September. At the 2016 budget it was announced that from April 2020, the indexation would switch to the (usually lower) Consumer Prices Index (CPI).

This year, the standard rate multiplier England is 49.7p and the small business multiplier is 48.4p. Properties with a rateable value of up to £18,000 (£25,500 in Greater London) are eligible for the small business multiplier. This threshold will increase to £51,000 from 1st April 2017.

Supplements

County councils, unitary authorities and the Greater London Authority (GLA) have the power levy a business rates supplement on properties with a rateable value below £50,000 to fund projects that "the authority is satisfied will promote economic development in its area." A limit of 2p per £1 of rateable value applies and authorities must satisfy various criteria such as consulting with businesses.

So far the only use of this power has been by the GLA to help pay for Crossrail.

Properties in the City of London incur an additional supplement of 0.4p due to its small residential population and council tax base.

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Reliefs

In England, the total relief are forecast to be [£3.17 billion] in 2016-17.

Small businesses relief

Up to 1st April

- Properties with a rateable value of below £6,000 are subject to a 100 per cent discount.
- Properties with a rateable value of between £6,001 and £12,000 are subject to a tapering discount ranging from 0 per cent to 100 per cent, on the basis of 1 per cent relief for every £60 of rateable value.

From 1st April 2017

- Properties with a rateable value of £12,000 or less will attract 100 per cent business rates relief.
- Properties with a rateable value of £12,000 to £15,000 will attract some business rate relief on a tapering scale.

Charitable relief

Properties occupied by charities and wholly or mainly used for charitable purposes are entitled to a mandatory reduction of 80 per cent. Billing authorities have the discretion to increase this to 100 per cent.

Rural

Public houses or petrol stations which are the only such business in a rural settlement which have a rateable value of less than £12,500 are entitled to 50 per cent mandatory rural rate relief which can be topped up to 100 per cent at the billing authority's discretion. From 1st April 2017 rural rate relief will increase to 100 per cent.

Discretionary

Local authorities can provide discretionary relief of up to 100 per cent provided it does not violate EU state aid rules. Local authorities cannot give themselves relief.

Empty properties

Empty properties with a rateable value of £2,600 or more are exempt from business rates for three months if the property is commercial or six months if it is industrial.

Temporary reliefs

There have been a number of temporary reliefs in recent years for enterprise zones, areas affected by flooding, local newspapers and retail premises.

Transitional relief

The government is legally required to provide transitional relief to phase in large increases in ratepayers' bills following a revaluation under the *Local Government Act 2003.* The translation scheme caps the amount by which **bills** (not rateable values) can increase or decrease in individual financial years.

The table below sets out the maximum a bill can **increase** by in each of the next five years

Year	RV < £20,000	RV: £28,001-£100,000	RV: > £100,000
2017-18	5.0%	12.5%	42.0%
2018-19	7.5%	17.5%	32.0%
2019-20	10.0%	20.0%	49.0%
2020-21	15.0%	25.0%	16.0%
2021-22	15.0%	25.0%	6.0%

The table below sets out the maximum a bill can **decrease** by in each of the next five years

Year	RV < £20,000	RV: £28,001-£100,000	RV: > £100,000
2017-18	20.0%	10.0%	4.1%
2018-19	30.0%	15.0%	4.6%
2019-20	35.0%	20.0%	5.9%
2020-21	55.0%	25.0%	5.8%
2021-22	55.0%	25.0%	4.8%

How much money do they raise?

In 2015-16 Business Rates raised £28.8 billion making it the sixth-largest revenue raiser. This was equal to 4.6 per cent of tax revenues. For comparison, council tax raised £29 billion and fuel duty £27.6 billion.

Business rates by region

Region	Sum payable by rate payers 2016-17 (£)
London	7,169,622,598
South East	3,670,450,808
North West	2,754,450,238
East of England	2,361,411,871
West Midlands	2,081,549,834
Yorkshire & The Humber	2,016,513,482
South West	1,949,213,095
East Midlands	1,525,895,213
Wales	1,000,549,000
North East	882,922,351

Business rates payable by local authority – top 10

Region	Sum payable by rate payers 2016-17 (£)
Westminster	1,853,504,639
City of London	842,341,280
Camden	534,721,931
Birmingham	430,194,169
Leeds	403,438,920
Tower Hamlets	398,901,164
Hillingdon	379,211,578
Manchester	342,314,969
Kensington & Chelsea	280,403,971
Southwark	240,006,670

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Highest business rates bills in 2015-16

1. Heathrow airport, Hounslow: £118,320,000
2. Sellafield Limited, Cumbria: £32,335,870
3. Sizewell B power station, Suffolk: £28,283,410
4. Gatwick airport, West Sussex: £27,849,570
5. Heysham 2 power station, Lancashire: £24,640,140
6. No 1 Maintenance Area, Heathrow: £20,301,740
7. Vodafone fibre optic network and Berkshire premises: £19,720,000
8. Hartlepool power station: £16,564,800
9. Corus UK Ltd, Lincolnshire: £15,460,480
10. Manchester airport: £15,302,720

Heathrow airport paid 0.41 per cent of total business rates receipts in 2015-16. If an individual income tax payer had paid the same proportion of total income tax receipts in 2015-16, they would have paid £694 million.

Heathrow's business rates bill is more than the total collected by 295 local authorities in England, greater than that for all businesses in Coventry, Wandsworth, Leicester, Reading and Brighton (not combined).

Why the controversy?

The recent furore centres on the revaluation element rather than the multiplier. The upcoming revaluation, which comes into effect on 1st April 2017, is the first revaluation since 1st April 2010. The scheduled 2015 revaluation was delayed by the *Growth and Infrastructure Act 2013* which prompted the Scottish and Welsh governments to also delay revaluation to 2017. Northern Ireland held a revaluation in 2015.

The valuation practice itself has changed in the wake of a 2015 judgement by the Supreme Court in *Woolway v Mazars*. The case concerned an office block in London in which Mazars, an accountancy firm, occupied the second and sixth floors. Mazars sought to have them valued as one property but the judgement found that the valuation officer was right to have rated the two floors separately. The effect of the case is to prevent valuation officers from assigning a single rateable value to properties that are not physically contiguous but covered by a single lease to a single occupant, something that had previously been at the discretion of local valuation officers. This could have implications for arrangements where, for instance, a car parking space is rented together with an office.

The combined effect of the delayed revaluation, changes to reliefs and the *Woolway v Mazars* judgement mean that some ratepayers' bills are set to change significantly.

Additionally the appeals process has changed in a way that imposes new burdens on ratepayers and introduces appeal fees. The powers of the Valuation Tribunal for England will also be restricted as they will now only be able to order an alteration to an assessment if it considers the rateable value to be "outside the bounds of reasonable professional judgement"

Who bears the economic burden?

Much of the recent debate has focussed on the effect of the revaluation on businesses with little mention of whether or not a business owns or leases the property from which it operates. This is however an important question.

In the long run, increases to business rates will lead to lower rents as the rental prices that properties can command fall. However when rates on properties are increased mid-lease, this will not immediately lead to lower rents. Likewise, landlords will not be able to immediately command higher rents from properties on which rates are reduced.

Options for reform

Short term

- Lengthen transitional arrangements
- Decrease transitional caps
- More or increased reliefs
- Bring forward switch from RPI to CPI for multiplier uprating
- Reduce multiplier rates

Longer term

- Move towards an annual, automated process of revaluation which avoids cliff edges.

Complete overhaul

There are strong arguments that business rates are a bad tax and should be replaced altogether, perhaps with a Land Value Tax. Alternative revenue raising powers for local authorities such as local sales taxes were recommended by the 2020 Tax Commission, convened by the TaxPayers' Alliance and Institute of Directors, and should also be considered.

In 2008 relief for empty properties was ended for commercial and industrial properties. Commercial properties had previously been exempt from business rates for three months then charged 50 per cent thereafter while industrial properties were exempt from all business rates. This change has further exacerbated the extent to which business rates discriminate between developed and undeveloped land to such an extent that it often makes sense for landlords to demolish properties to avoid paying business rates if they are unable to find tenants.

Other features such as the exemption of agricultural land and buildings mean that the system discriminates between different sectors.

While these features could be removed relatively easily, the more fundamental problem is that business property is an input to production. Taxing it artificially pushes economic activity towards less property intensive production.

The above suggestions and implications must be part of a bigger, comprehensive review of business and property taxation. Treasury ministers can often be heard saying that "all tax policy is kept under review." The recent furore should prompt the translation of these words into action.

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