TaxPayers' Alliance submission to HM Treasury fundamental review of business rates

Executive summary

- Rises in the business rates multiplier should be ruled out.
- The government should reevaluate non-domestic rates every three years rather than every five years. This is to ensure that the rate applied is more closely aligned to current market conditions.
- The Local Government Finance Act 1988 should be amended to allow for a decline of rental values of more than 10 per cent to be incorporated as a 'material change in circumstances.' This could be done within the challenge and appeal stages of the business rates appeals system for England.
- An online sales tax should not be introduced either as an alternative or complementary to business rates. It would punish shoppers for current and likely future changes in consumer behaviour and would have poor distributional effects.

Business rates multiplier

Q7: In future, rises in the business rates multiplier should be ruled out. The standard multiplier has increased from 41.4 per cent in 2010-11 to 51.2 per cent in 2020-21. Over the same period, the small business multiplier has risen from 40.7 per cent to 49.9 per cent.

Valuation and transitional relief

Q10: The government should reevaluate non-domestic rates every three years rather than every five years. This is to ensure that the rate applied is more closely aligned to current market conditions.

- The non-domestic rating (lists) bill (HL bill 109) does not contain a provision for triennial revaluations to replace the current quinquennial process. Either the bill should be changed to specifically incorporate triennial revaluations, or the Local Government Finance Act 1988 should be amended to ensure that via statutory instrument.

Q12: A quinquennial revaluation from the Valuation Office Agency means that there is a potential seven year lag between the revaluation taking place and the imposition of the multiplier from the newly determined rateable value. A triennial review shortens that process and can more accurately reflect existing rental values of commercial properties.

- This is especially advantageous to businesses when occupier demand and rent expectations are declining dramatically during the current pandemic.[1]

Valuation transparency and appeals

Q23: The Local Government Finance Act 1988 should be amended to allow for a decline of rental values of more than 10 per cent to be incorporated as a 'material change in circumstances.' This could be done within the challenge and appeal stages of the business rates appeals system for England.

- Section six of the Local Government Finance Act 1988 already allows appeals to the Valuations Office Agency and the Valuation Tribunal if there is a 'material change of circumstances'. However, economic factors are not included in this categorisation within the Act, even though their effect may be substantial.

[1] Royal Institute of Chartered Surveyors, Q1 2020: UK Commercial Property Market Survey, 2020.

- A material fall in prevailing rental values exceeding 10 per cent should be considered a material change in circumstances, allowing businesses to appeal and reduce their business rates assessment. This could bring immediate relief for businesses where rents are falling but business rates are not. This could be incorporated within the challenge and appeal stages within the business rates appeals system for England.
- This change would only apply where rental values are falling. Any adjustment for appreciating rents would be covered in the periodic revaluations.
- This will benefit companies of all sizes adjusting to changing market conditions, while reducing excessive overheads from both business rates and rents that are too slow to adjust.
- It is likely that the retail sector would be a significant beneficiary of this policy, as would regions adjusting to changes in their traditional manufacturing and commercial base.

Exploring alternatives to business rates

Q40: An online sales tax should not be introduced either as an alternative or complementary to business rates. It would punish shoppers for current and likely future changes in consumer behaviour and would have poor distributional effects.

- Though HM Treasury has introduced a temporary business rates holiday for retail, hospitality and leisure because of the covid-19 pandemic, this should not serve as a rationale for further new taxes for online retailers or deliveries.
- An online sales tax would punish shoppers for current and likely future changes in consumer behaviour. Internet sales as a percentage of total retail sales have increased from 19 per cent in February 2020 to 31.2 per cent in June 2020.[2]
- An online sales tax in order to preserve the high street in its existing form also runs counter to planned changes in government policy. The Ministry of Housing, Communities and Local Government's recently committed to making it easier to quickly repurpose existing commercial and retail properties for residential use.[3] An online sales tax to preserve the current functions of the high street would actively inhibit such a change in planning policy.
- An online sales tax would not deliver benefits to the high street. Instead, local authorities should as a matter of urgency explore measures to encourage footfall in retail areas. This could include, but is not limited to, parking schemes and licensing relaxations.

Q42: The TaxPayers' Alliance has estimated that the average household could see an extra £56 per year paid in tax because of a 2 per cent levy for online purchases.

- The delivery industry suggests that a £2 delivery charge could be levied, or 3 per cent of the value of a £62 shop.[4] If this was applied for a monthly delivery, households would pay an extra £24.

Q43: An online sales tax – either through a levy or additional delivery charge – would also have poor distributional effects. The poorest households could see an extra £20 per year paid in tax because of a 2 per cent levy for online purchases.

- Households who rent spend relatively more on non-discretionary items than those who own outright or have a mortgage. These items include housing and food costs. Since lockdown measures were introduced in March 2020, renters have spent 61 per cent of their usual weekly

[2] Office for National Statistics, *Internet sales as a percentage of total retail sales (ratio) (%)*, 24 July 2020, www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi, (accessed 13 August 2020).

[3] Ministry of House, Communities & Local Government, New laws to extend homes upwards and revitalise town centres, 21 July 2020, www.gov.uk/government/news/new-laws-to-extend-homes-upwards-and-revitalise-town-centres, (accessed 13 August 2020).

[4] Retail Technology Review, Shoppers must say 'No' to new minimum charge on home deliveries, says ParcelHero, 6 July 2020, www.retailtechnologyreview.com/articles/2020/07/06/shoppers-must-say-%E2%80%98no%E2%80%99-to-new-minimum-charge-on-home-deliveries,-says-parcelhero/, (accessed 13 August 2020).

budget on essentials. This compares to 52 per cent for those who own outright or have a mortgage.

- Those in private rented sector households are relatively poorer compared to those who own outright or have a mortgage. In 2018-19, 22 per cent of those in the private rented sector were in receipt of income related benefits. This compares to 9 per cent who own outright and 3 per cent with a mortgage.
- For those in the lowest decile of household incomes, an online sales tax would be particularly damaging.