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Policy Briefing Note
20 March 2011

Empty Property Rates

In April the holiday period for Empty Property Rates relief comes to an end. The TaxPayers' Alliance (TPA) has produced this policy brief to inform taxpayers, policy makers, the media and other interested parties about the effects of that change.

Soon all businesses will have to pay full business rates on an empty commercial property just three months after it becomes vacant, and six months later for an industrial property. This comes at a time when the Government needs to do all it can to create the right supply-side environment for businesses to lead the recovery. The TPA believes that the Government should scrap the tax in this month's Budget.

Key points:

- Empty Property Rates will hinder a private-sector led economic recovery. **Last year, empty rate relief was worth £1.2 billion to businesses.**
- With high vacancy rates across the UK, many landlords may simply to choose to **demolish empty properties instead** of paying the new rates. This would contract the fixed capital stock and make the economic recovery more difficult.
- **Collecting Empty Property Rates also causes councils problems,** with increased administrative and collection costs. And some are **using taxpayers' money to destroy buildings** to avoid paying the tax themselves.
- **Pensioners** who are funding their retirement with rental income from a small number of commercial properties will also be hit despite receiving no income from empty properties.
- In opposition, senior Liberal Democrat and Conservatives were **highly critical of the tax.**

To discuss this briefing further, or for media enquiries, please contact:

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Background

Businesses have traditionally been afforded relief through the tax system when their commercial property stood empty. Business Rates were waived for three months and charged at 50 per cent thereafter, to give businesses time to make a decision on what to do with a property and provide relief while sales went through or capital was raised to refurbish. Industrial properties were fully exempt.

But in the Budget of 2007, the then Chancellor Gordon Brown announced that the Government was scrapping this relief as part of the Rating (Empty Properties) Act 2007. Non-industrial property would be exempt from business rates for three months and industrial property for six months. After that time business owners returned to paying full rates. The intention was to incentivise landlords to lower rents, and shorten the amount of time properties lay empty.

> *"Can they afford to have this government remain in place when it was responsible for a measure at once so short-sighted and so destructive?"*
>
> Michael Gove discusses Empty Property Rates in an article for Building Magazine in October 2009

When the severity of the economic downturn became apparent, the Chancellor announced a brief respite for some ratepayers from the new legislation in the 2008 Pre-Budget Report: all properties under a Rateable Value of £15,000 would be exempt for the 2009-10 financial year. This window was kept open for the 2010-11 financial year and the threshold lifted to £18,000, intended to help small businesses during the downturn.

The window is about to shut. In April 2011, the Rating (Empty Properties) Act 2007 is due to return for properties over a Rateable Value of £2,600 and put pressure on businesses and savers across the UK. This could have negative consequences:

- The number of empty commercial properties is currently very high so without relief there are likely to be more demolitions.
- Prices for properties being sold could be driven artificially low, as businesses are offered "take it or leave it" deals before the shortened exemptions kick in.
- Risky development and regeneration will be reduced, with 85 per cent of businesses believing the legislation has a detrimental effect on town regeneration. This is completely contrary to the tax's objective.[1]
- Pensioners who are funding their retirement with rental income from a small number of commercial properties will also be hit despite receiving no income from empty properties.

[1] http://www.rics.org/site/download_feed.aspx?fileID=387&fileExtension=PDF

Damaging for businesses

Data released by the Department for Communities and Local Government shows the value of the relief on empty properties given to businesses:

Table 1: The value of empty property rate relief over the last five years
Source: http://www.communities.gov.uk/documents/statistics/pdf/1824743.pdf

Financial Year	Value of Relief (£)
2005-06	1,313,500,000
2006-07	1,361,800,000
2007-08	1,294,000,000
2008-09	487,000,000
2009-10	1,179,000,000

The new rates came into effect in 2008-09, which explains the huge drop in relief provided, but temporary relief was introduced in 2009. The relief will drop away again for the 2011-12 financial year if the Government introduces this tax. The Government hope to raise £400 million by ending relief for low value properties,[2] but the reliefs could be far more valuable for businesses to help lead recovery.

"We are spending public money demolishing buildings to avoid this ill-thought out stealth tax...Swindon, like many other towns across the country, could suffer if regeneration projects are shelved as a result of this. We want MPs to take note and for the government to urgently reapply the relief on empty property."

Nick Martin, lead member for finance at Swindon Borough Council, in the British Property Federation's survey of local authorities in 2008

According to the Local Data Company, the current vacancy rate for shops alone is 14.7 per cent nationally (at the time of writing).[3] Regionally the picture is far bleaker, with centres like Rotherham having 28 per cent of their shops empty. In smaller centres the rates are much higher, with Morecambe at 30 per cent and Margate at a huge 37.4 per cent.[4]

If the owners of these properties are to be asked to pay normal rates of business tax then the result will likely be huge increases in demolitions – and again, Local Data Company's report only covers shops. The tax is commonly referred to as the 'Bombsite Britain Tax', and the British Property Federation believe it has already led to the demolition of millions of square feet of property since it was introduced.[5]

[2] http://www.theyworkforyou.com/wms/?id=2010-12-13a.61WS.4&s=bob+neill+2010-12-10..2010-12-15#g61WS.5
[3] http://www.localdatacompany.com/
[4] *Terminal Illness or Gradual Decline? End of Year Report 2010*, Local Data Company, available at http://www.localdatacompany.com/news.php
[5] http://www.bpf.org.uk/en/newsroom/press_release/PR_7710_-_empty_property_rates.php

A survey by the Royal Institution of Chartered Surveyors and Lambert Smith Hampton found that Empty Property Rates were the single biggest factor in determining which buildings were demolished.[6] The result of more demolitions would be a contraction of the capital stock. This will make recovery much more difficult, even if favourable economic conditions return. Businesses will simply have fewer properties to expand into, or start up in. Construction costs will be prohibitive to smaller businesses and limit their options.

This is not the only way that Empty Property Rates will hinder growth ambitions. Smaller businesses may decide to downsize to offset future risk of exposure to the tax, which could lead to staff redundancies and/or lower wages for workers.

[6] http://www.rics.org/site/download_feed.aspx?fileID=387&fileExtension=PDF

Burdensome on the public sector too

Local authorities have their own problems with Empty Property Rates. A survey carried out by the British Property Federation in 2008 found that every single council questioned disagreed with the new rates. Over half of the respondents said the extra cost to their councils was as much as 20 per cent through the administrative burdens associated with the tax. Further, over a third of billing authorities surveyed saw their own annual rates liability increase by over 4 per cent. Liz Peace, the Chief Executive of the British Property Federation said when the report was released:[7]

> *"We have evidence of councils wasting public money paying empty rates and demolishing public buildings to avoid paying it. The fact that the rates collectors oppose the tax is unsurprising and it's clear that the damage being done by empty rates is affecting people far outside the property industry"*

> *"What will now happen is that when property falls vacant it will be penalised for being empty in a recession - which is a ludicrous situation, completely counterproductive and economically very damaging."*
>
> Vince Cable MP

Local authorities spend more money chasing and paying Empty Property Rates, and have even spent taxpayers' money on demolishing properties to avoid paying the tax. Councils will have less money next year, and will face extra and unnecessary pressure from this tax.

In opposition, Conservative and Liberal Democrat politicians were scathing about Empty Property Rates. Michael Gove said that the removal of empty property rate relief was a "wicked and ungodly act", and asked of Labour's temporary window "if this tax change was so good for regeneration and commercial activity, why reverse any of it?"[8] Laura Sandys, now Conservative MP for Thanet South, submitted a petition to get rid of Empty Property Rates to the Number 10 website.[9] Vince Cable has also criticised them.[10] Indeed, David Cameron said recently:[11]

> *"for over a decade in this country the enemies of enterprise have had their way. Taxing. Regulating. Smothering. Crushing. Getting in the way."*

This tax is one of those enemies. The Coalition Government must now act on their words and scrap it at the Budget.

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[7] http://www.bpf.org.uk/en/newsroom/press_release/PR231108_Survey_reveals_local_authorities_contempt_for_empty_rates.php

[8] http://www.building.co.uk/comment/the-evil-that-men-do/3151499.article

[9] http://petitions.number10.gov.uk/emptythreat/

[10] http://www.estatesgazette.com/blogs/ed-cooke/2010/12/a-more-civilised-kind-of-protest.html

[11] http://www.conservatives.com/News/Speeches/2011/03/David_Cameron_Building_a_better_future.aspx