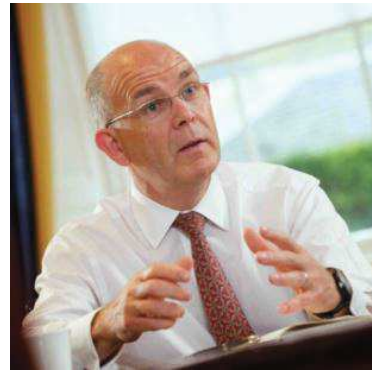


Report of the Barclay Review of Non-Domestic Rates

22 August 2017

FOREWORD

When I was approached last year to chair a review into the non-domestic rates system in Scotland to better support business growth, long term investment and reflect changing marketplaces, it was an opportunity I accepted without hesitation.



Kenneth Barclay

Because of the breadth of types of property that pay this tax, it was apparent from the outset that I would need to listen to the views of as many stakeholders as possible, so one of the first steps in the process was to invite contributions from those who currently pay rates and equally from those who do not.

Over 150 businesses, trade bodies, professionals, ratepayers, councils and members of the public and others responded, with formal written submissions and many more sent in emails and information, subsequently.

Meetings and events were attended or hosted across Scotland to enable further views to be heard. Additionally, five oral evidence sessions were held to allow us to probe ideas and options in more depth.

All of this information and evidence had to be read, collated and scrutinised and without those contributions this review would have been impossible. I wish to thank every one of those individuals and organisations who were involved in this process and welcome the constructive way they engaged and shared ideas with us. Whilst these recommendations are the result of a year's work for this review, they draw on and incorporate the ideas and views of many experts and ratepayers who have decades of experience in both the rating and valuation fields and in running successful businesses.

Equally, I could not have done any of this without the considerable time, expertise and insight provided by my colleagues. David, Isobel, Nora and Russel have exemplar commitment to public service and I wish to thank them for their

commitment and dedication and acknowledge the considerable amount of their time they gave freely to undertake this process.

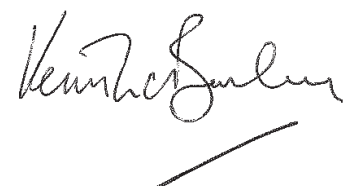
I am pleased to outline the results of my review here in this report which contains 30 individual recommendations on how the rates system could be reformed in Scotland.

These include the creation of a delay of a year before rates liability is incurred when a property is improved, expanded or newly built, 3 yearly revaluations, reduction in the large business supplement and a new relief for nurseries. These measures will benefit the entire tax base - public and private sector and large and small businesses alike.

Whilst these recommendations address some of the most frequent and high profile complaints we heard from ratepayers, it's important not to underestimate the impact administrative changes can have to the ratepayer. By making a series of recommendations to reduce the administrative burden on businesses we can also support economic growth by freeing up time to allow them to do what they do best - growing the economy.

Under my revenue neutral remit, this all, of course has to be funded and I set out a number of measures to do so. These revenue raising measures may not be popular with some. They are not about penalising particular sectors. They are about removing anomalies, creating a level playing field and reducing avoidance. All of the 30 recommendations combined will, I believe, improve the economic climate in Scotland and give Scotland a competitive advantage in growing existing businesses and attracting new business.

I now pass these recommendations to Scottish Ministers for their consideration.

A handwritten signature in black ink, appearing to read 'Kenneth Barclay', with a long horizontal stroke underneath.

Kenneth Barclay, Chair

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SECTION 1: EXECUTIVE SUMMARY.

Remit of Review and timescales.

1.1 We were appointed by Scottish Ministers in mid-2016 with the following remit:

“To make recommendations that seek to enhance and reform the non-domestic rates (also sometimes referred to as business rates) system in Scotland to better support business growth and long term investment and reflect changing marketplaces, whilst still retaining the same level of income to deliver local services upon which businesses rely.”

1.2 We were given around a year to conduct the review and to make recommendations.

1.3 We were not asked to influence the 2017 revaluation, nor to look at wider taxation or business policies. We also had to consider whether measures we recommended would fall within devolved competence.

Membership and biographies.

1.4 We were appointed to undertake the non-political review acting independent of Government. The Review Group was comprised as follows:-

Kenneth Barclay (Chair)

Prof. Russel Griggs OBE

David Henderson

Isobel d’Inverno

Nora Senior CBE

Kenneth Barclay was Chair of RBS Scotland until February 2016. His current portfolio includes Chairman of a Scottish Charitable Incorporated Organisation, The Lens. He sits on the Advisory Board of IPPR Scotland, is the Compliance Trustee of The Scottish Children's Lottery and is a Director of Poppy Scotland. He has previously served as Director, Scottish Financial Enterprise and Scottish North American Business Council and has been a Council member of both CBI Scotland and the British Chamber of Commerce in Hong Kong.

Isobel d'Inverno is Director of Corporate Tax at Brodies LLP and is Convenor of the Tax Law Committee of the Law Society of Scotland and a Council member of the Stamp Taxes Practitioners Group. She also served on the Scottish Government / COSLA Joint Commission on Local Tax Reform.

Nora Senior CBE is a previous Scottish Businesswoman of the Year. Her influential position in the UK business community led to her appointment as President of British Chambers of Commerce, Chair of Scottish Chambers of Commerce and a non-exec Board member of the SCDI. She is Chair UK Regions of communications consultancy Weber Shandwick. She was awarded the CBE in 2017 for services to the Scottish and UK Business Community.

David Henderson is a retired senior civil servant. His final post in the Scottish Government before retirement was as Deputy Director for local government finance, which included responsibility for non-domestic (business) rates.

Professor Russel Griggs OBE has had a number of non-executive positions in the private, public and third sector as well as running his own consultancy business which does a variety of strategic work for public bodies and private companies. Currently, he chairs the Scottish Government's independent Regulatory Review Group who advise and work on better regulation in Scotland. He also has worked closely with the SME banking sector in recent years, overseeing and reviewing practices in the financial sector, including

SME Appeals, Bank Branch Closures, and Statutory SME referrals. He also chairs the Scottish Mines Restoration Trust which is a third sector charity set up to restore opencast sites left derelict by the collapse of the two main opencast mining companies in Scotland.

- 1.5 Secretariat support was provided by the Scottish Government.
- 1.6 We agreed to work under terms of reference which can be viewed [here](#). Neither the Chair nor the members received any remuneration, although some of the costs of travel to meetings was met by the Scottish Government.
- 1.7 The expected approximate time commitment indicated to the Group by the Scottish Government at the start of the process was one day per month for members and two for the Chair. In the event, the actual time spent was considerably greater.

Process, consultation and engagement.

- 1.8 We undertook extensive consultation. Our first step was to issue a broad invitation for written submissions to be provided by October 2016. By the cut-off date, we had received over 150 submissions, some of which were very detailed. A small number of written submissions were received after the cut-off date. All were considered by the Group. Where consent was given to publish, these written submissions are available [online](#).
- 1.9 We tried to meet as many people as possible within the time we had available and, during the first half of 2017, members of the Group held a series of oral evidence sessions and consultation meetings with a broad range of organisations. These meetings were held mainly in Edinburgh and Glasgow but, in order to ensure as wide a cross-section of views as possible, meetings and events were also attended and hosted in other locations around Scotland including in Aberdeen, Crieff, Dumfries, Galashiels, Inverness, Kirkcaldy and Perth.

- 1.10 Agendas, minutes of meetings and other papers are published online [here](#).
- 1.11 We are extremely grateful to all those who made time to write to us and to meet us. Their contributions were invaluable to our work and have contributed to our final recommendations. While we acknowledge that we have not acted upon some of the points put to us (where, for example, these were at odds with other points made or would have incurred costs to the Scottish Government which we consider it could not have reasonably met within an overall constraint of revenue neutrality), we would wish to stress that we have taken account of all of them in reaching our conclusions.

State aid.

- 1.12 The result of the EU Referendum in June 2016 introduced an element of uncertainty as regards the future of the current EU state aid rules. Currently, all subsidies provided by the Scottish Government, including subsidies through reliefs or exemptions under the rating system, must conform to these rules. We have assumed, for the purposes of this report, that the current state aid rules will continue in the short term, but we recommend that the Scottish Government should consider the implications of any future changes to state aid or any replacement measure(s) for the wider implementation of the recommendations in this report.

Revaluation 2017.

- 1.13 Our remit was to consider future changes to the current rates system, however, the timeframe of our review spanned the implementation of the 2017 rates revaluation in Scotland. Perhaps understandably, therefore, many ratepayers and organisations wished to discuss the revaluation with us. While the terms of our review preclude us from making any recommendations about the 2017

reevaluation, we have reflected fully the views expressed with regard to future revaluations.

Thanks.

- 1.14 We are grateful to the many organisations, trade bodies, businesses and individuals who sent us written submissions and other information, who provided oral evidence to us or who met us. Their insight and evidence was invaluable in highlighting areas where the non-domestic rates system could be improved.

- 1.15 We are also grateful to various officials in the Scottish Government, particularly Marianne Barker, Steve Ing and Tony Romain, for their extensive support and helpful advice throughout the period of the review.

- 1.16 All the recommendations we have included in this report are solely those of the Group.

Recommendations.

- 1.17 Before reaching our conclusions, we debated extensively the many options that were put to us as ways of reforming the rates system.
- 1.18 Some may be disappointed that our recommendations are not designed to reduce the overall burden of the tax, but key within the remit given to us was the need to be revenue neutral in whatever we recommended.
- 1.19 An over-arching conclusion that we reached is that some form of property tax is still an appropriate way to fund the local services provided by councils, as the whole of society benefits from the services they provide (such as education, social care and road maintenance). However, we also acknowledge that a property tax does not adequately cover all aspects of the fast-growing digital economy and we have observed the challenges of this later in this report.
- 1.20 We recognise that the Scottish Government will need time first to consider our recommendations and then to implement those it accepts, although we hope that it will do so quickly to seize the opportunity that our reforms present. In particular, some recommendations will require the Scottish Parliament first to pass primary legislation. Other recommendations carry a cost and so, given that the terms of our remit stipulated that our recommendations should, in total, be revenue neutral, are reliant on the Scottish Government introducing other measures within our package first, to ensure the necessary funding can be in place.
- 1.21 Our 30 recommendations are as follows. More detail on each appears later in the main body of this report. Our recommendations have been broadly grouped into similar categories, although many are interlinked, not least those which require funding that, under our revenue neutral remit, need to be financed by savings made elsewhere within our recommendations.

Measures to support economic growth.

1.22 This was core to our remit: to identify any ways in which we believe the rates system could improve and stimulate economic performance. These are our recommendations:

1. A Business Growth Accelerator – to boost business growth, a 12 month delay should be introduced before rates are increased when an existing property is expanded or improved and also before rates apply to a new build property.
2. There should be three yearly revaluations from 2022 with valuations based on market conditions on a date one year prior (the 'Tone date').
3. The large business supplement should be reduced.
4. A new relief for day nurseries should be introduced to support childcare provision.
5. Town Centres should be supported by expanding Fresh Start relief.
6. There should be a separate review of Plant and Machinery valuations with particular focus on renewable energy sector valuations and statutory improvements to property including sprinkler systems.
7. The effectiveness of the Small Business Bonus Scheme should be evaluated.

Measures to improve ratepayer experience and administration of the system.

1.23 It is also important to recognise that – alongside headline measures to incentivise investment – more incremental administrative improvements in the rates system can have a positive effect. Therefore we also make the following recommendations:

- 8.** The Scottish Government should provide a ‘road map’ to explain changes to the rating system and should consult whenever possible on those changes, prior to implementation.
- 9.** There should be better information on rates made available to ratepayers – co-ordinated by Scottish Government.
- 10.** A full list of recipients of rates relief should be published to improve transparency.
- 11.** A “rateable value finder” product should be used – to identify properties that are not currently on the valuation roll, so as to share the burden of rates more fairly.
- 12.** Assessors should provide more transparency and consistency of approach. If this is not achieved voluntarily, a new Scotland wide Statutory Body should be created which would be accountable to Ministers.
- 13.** The current criminal penalty for non-provision of information to Assessors should become a civil penalty and Assessors should be able to collect information from a wider range of bodies.
- 14.** Standardised rates bills should be introduced across Scotland.
- 15.** Ratepayers should be incentivised to sign up for online billing where available except in exceptional circumstances.
- 16.** A new civil penalty for non-provision of information to councils by ratepayers should be created.
- 17.** Councils should refund overpayments to ratepayers more quickly.
- 18.** Councils should be able to initiate debt recovery at an earlier stage.
- 19.** Reform of the appeals system is needed to modernise the approach, reduce appeal volume and ensure greater transparency and fairness.

Measures to increase fairness and ensure a level playing field.

1.24 Finally, any well-functioning tax needs to rely on principles of fairness to remain credible for tax payers and to ensure revenues are not undermined by avoidance tactics. We therefore make the following recommendations:

- 20.** A General Anti-Avoidance Rule should be created to reduce avoidance and make it harder for loopholes to be exploited in future.
- 21.** To counter a known avoidance tactic, the current 42 days reset period for empty property should be increased to 6 months in any financial year.
- 22.** To counter a known avoidance tactic for second homes, owners or occupiers of self-catering properties must prove an intention let for 140 days in the year and evidence of actual letting for 70 days.
- 23.** The Scottish Government should be responsible for checking rates relief awarded, to ensure compliance with legislation.
- 24.** Charity relief should be reformed/restricted for a small number of recipients.
- 25.** To focus relief on economically active properties, only properties in active occupation should be entitled.
- 26.** To encourage bringing empty property back into economic use, relief should be reformed to restrict relief for listed buildings to a maximum of 2 years and the rates liability for property that has been empty for significant periods should be increased.
- 27.** Sports club relief should be reviewed to ensure it supports affordable community-based facilities, rather than members clubs with significant assets which do not require relief.
- 28.** All property should be entered on the valuation roll (except public infrastructure such as roads, bridges, sewers or domestic use) and current exemptions should be replaced by a 100% relief to improve transparency.
- 29.** Large scale commercial processing on agricultural land should pay the same level of rates as similar activity elsewhere so as to ensure fairness.

30. Commercial activity on current exempt parks and Local Authority (council) land vested in recreation should pay the same level of rates as similar activity elsewhere so as to ensure fairness.

1.25 The infographic below sets out the main themes of both our remit and our recommendations.

Role and Remit of the Barclay Review

- 1) Recommendations that enhance & reform non-domestic rates
- 2) Support growth & investment, reflecting marketplace changes
- 3) Remaining revenue neutral to ensure fair funding of local services

Recommendations of the Barclay Review

Efficiency and Transparency

Three yearly revaluations and a shorter delay before valuations take effect



Moderisation of billing and appeals across Scotland

Support for Ratepayers

Supporting childcare - new relief for nurseries



Greater support for town centres - expanded Fresh Start relief



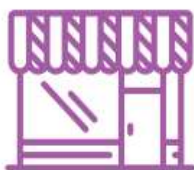
Supporting Growth

Review of Plant and Machinery valuations



Reduce the Large Business Supplement

12 months rates free for new construction and investment



Review of the Small Business Bonus Scheme

Tackling Tax Avoidance and Ensuring Fairness

Reform charity relief to ensure a level playing field

Introducing a general anti-avoidance rule

Closing loopholes



Reforming Empty Property Relief to get buildings back into use

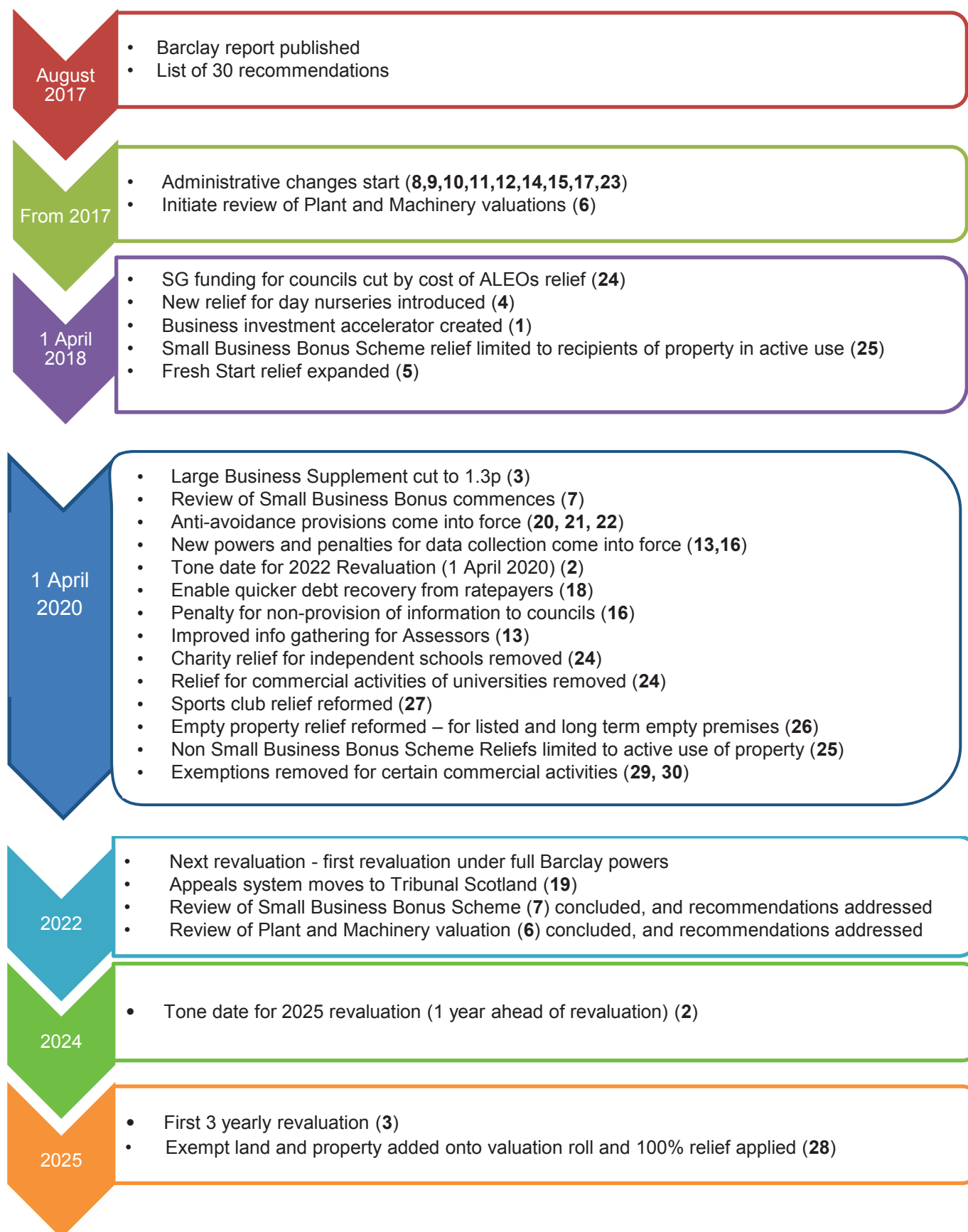
Restricting all other reliefs to properties in active use

- 1.26 There is one recommendation which we would have made, had the costs of doing so not breached the terms of the remit we were given to ensure overall cost neutrality. This recommendation would have been to link annual increases in the Scottish poundage to CPI (Consumer Prices Index) rather than September RPI (Retail Prices Index). Section 5 provides full details and explains why we have not felt able to include this recommendation at this time.

Roadmap.

- 1.27 We include an outline roadmap, including timescales, showing when we believe it might be reasonable to expect the Scottish Government to be able to implement the recommendations which we have made. The relevant recommendation number(s) appear in brackets after each entry.

Road map.



1.28 Table 1 (below) summarises the estimated financial impact of each of our recommendations. Where a number does not appear, these relevant recommendations carry no cost, are administrative or the cost rounds up to less than £0.1 million. While these reforms provide a small surplus in 2018-19 and 2019-20 and a small deficit in 2020-21 and 2021-22 we believe these modest sums are within the margins of rounding error on a total tax take of £2.8 billion.

Table 1: Our recommendations - with projected financial implications.

Recommendation		Financial Impact (£ million)			
No	Description	2018-19	2019-20	2020-21	2021-22
1	Business growth accelerator	-45	-45	-45	-45
2	Three yearly revaluations				
3	Reduction in large business supplement			-62.5	-62.5
4	New relief for day nurseries	-7	-7	-7	-7
5	Expanding fresh start relief to benefit town centres	-2	-2		
6	Review of plant and machinery valuation				
7	Review of Small Business Bonus Scheme				
8	'Road map' for future rates changes				
9	Provision of better information				
10	Relief recipients to be published				
11	Employ rateable value finder product	1	1	1	1
12	More transparency & consistency from Assessors				
13	Greater information gathering power for Assessors				
14	Standardised rates bills across Scotland				
15	Incentivise online billing				
16	Penalty for non-provision of information to councils				
17	Councils to make refund payments faster				
18	Enable quicker debt recovery from ratepayers				
19	Reform of the appeals system				
20	General anti avoidance rule (GAAR)			21	21
21	Close empty property relief loophole			Covered under GAAR (above)	
22	Close SBBS second homes loophole				
23	All relief awards to be checked for errors	3	3	3	3
24	Reform charity relief	45	45	50	50
25	Relief restricted to properties in active occupation	7	7	12	12
26	Reform empty property relief			15	15
27	Sports relief for affordable community facilities			3	3
28	All property should be on valuation roll				
29	Commercial agricultural processing			2	2
30	Commercial activity on parks etc.			1.5	1.5
Net Financial Impact		2	2	-6	-6

SECTION 2: INTRODUCTION.

2.1 In assessing our remit, we made the decision at the outset that our work and recommendations should embed, so far as possible, the following broad principles:

- **Fairness** – to make the rates system as fair as possible and to remove what can be perceived as anomalies in the system that give some organisations an advantage over other organisations delivering the same services. This includes consideration of future proofing;
- **Consistency** – to endeavour to ensure that shocks to the system (such as steep rises in rateable values following a revaluation) are minimised and help ratepayers plan for the future;
- **Transparency** – to seek to ensure that the rates system is as transparent as possible to those who pay rates and that there is better understanding across Scotland as to how the rates system operates and how funds are spent;
- **Simplicity** – to seek to ensure that the administrative systems and processes surrounding the rates system are as simple and straightforward as possible, and;
- **Accountability** – to promote greater accountability on all involved in the rates system – on councils to identify and collect all rates due; on ratepayers to provide information sought by Assessors; on the Assessors to be more transparent; and on the Scottish Government to provide more certainty to ratepayers and oversee these reforms.

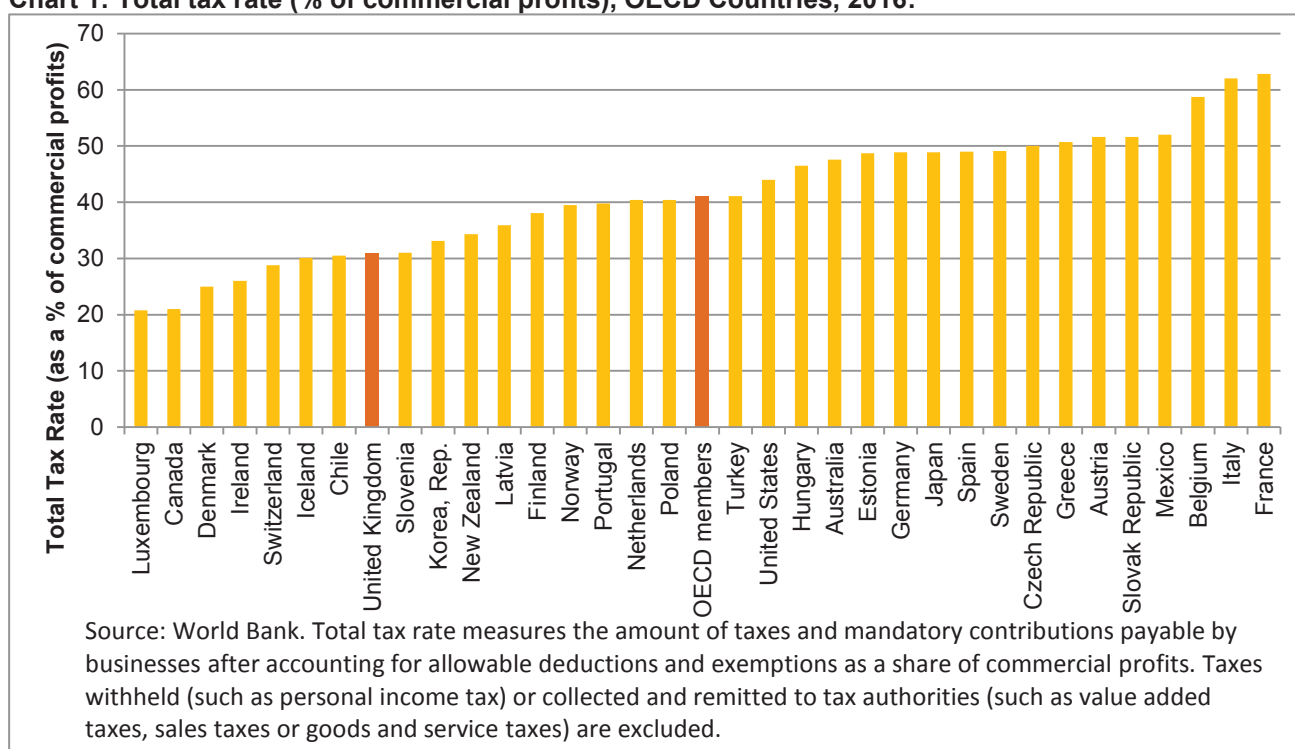
2.2 Our deliberations ranged extensively. At the outset, we considered, for example, whether the current rates system, based on the annual rental value a property would attract in an open market, should be replaced – and the possible options for doing so. These included switching from the current property-based tax, based on rateable values, to a local tax based on land value or a local turnover or sales tax or a combination of these. Each of the alternatives we

considered has pros and cons. A land value tax, for example, might better reflect the overall value of assets than rateable value and a sales tax might better capture the impact of the growing digital economy. On the other hand, there are relatively little data available currently to assess how land value tax would work in practice, and a turnover or sales tax would be inappropriate for public sector organisations, many of whom would pay nothing by virtue of having no sales or turnover.

- 2.3 Equally, we took note of experience of tax systems in places further afield of Scotland, including the rest of the UK and in Europe, America, Australasia, Singapore and Hong Kong. All the countries that we looked at had some form of property taxes and no country appeared to have a perfect model.
- 2.4 There were some challenges in looking at only one tax in isolation on a revenue neutral basis and not considering the interdependency of non-domestic rates and other taxes. However we took a pragmatic approach and concluded that, on balance, a property tax system based on rateable values, as is currently in place in Scotland, best fits the principles set out above. That conclusion also appears to be supported by the majority of those we consulted. A further general view among ratepayers is that stability and certainty are important and that radical ideas could lead not just to uncertainty but also potentially to significant shocks to the rates system, both to ratepayers and Government revenues.
- 2.5 Alongside this, we considered the purpose of the rates system and concluded that this is primarily to provide one of the routes (alongside council tax, grant funding provided to councils by the Scottish Government and the income councils raise from fees and charges) by which councils secure funding to enable them to deliver local services.
- 2.6 Rates are a crucial part of this mix and must be levied to pay for local services – we believe there is a strong rationale for the non-domestic sector to help pay for these services. We do recognise that, by international standards, both Scotland and the UK raise a relatively large amount of tax from property taxation – and that this places a burden on businesses across Scotland.

However, this should be seen in the wider context of business taxation and regulation in both Scotland and the UK. For example, while non-domestic rates raise a larger amount of revenues than is typical for commercial property taxes across the OECD¹, the total taxes paid by UK businesses (as a % of commercial profits) are lower than averages for both the OECD and the EU – while businesses pay relatively high amounts of property tax, they pay relatively low amounts of other taxes (e.g. corporation tax). This is illustrated in Chart 1. Similarly, the UK does well in ‘ease of doing business’ rankings and other measures of providing a competitive business environment².

Chart 1: Total tax rate (% of commercial profits), OECD Countries, 2016.



2.7 This is not to say that the rates system cannot be improved - we believe there are changes that should be made to it which will stimulate economic development in some key respects.

¹ For example, the OECD tax database shows that as a % of GDP, and the UK and France are the countries with the largest tax burden, at 4% <https://data.oecd.org/tax/tax-on-property.htm>. By looking at Government Expenditure & Revenue Scotland data (<http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS> - due to be updated on August 23) – it is possible to confirm that non-domestic rate accounts for a similar proportion of UK GDP as it does Scottish GDP.

² Data and analysis available at the World Bank’s doing business website: <http://www.doingbusiness.org/>, provides a more detailed breakdown of these factors. The 14th edition of ‘Doing Business’ provides a summary of the performance of the UK economy in these indicators on page 248 (<http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>)

- 2.8 Crucially, it was essential that we listened to ratepayers and those with responsibility for the day to day running of the rates system in Scotland. In making our recommendations, we considered all comments made to us, whether in person or in writing.
- 2.9 We took note of the pleas of many ratepayers for an overall reduction in the rates burden, but that fell outside of our remit. Some pointed out that, with recent reductions in corporation tax, non-domestic rates now comprise the largest tax burden on many businesses. Others noted that the rates burden was, as a result of the extensive reliefs and exemptions in place, increasingly skewed towards the largest businesses and organisations. Against that, however, we had to balance the provision in our remit to ensure that our recommendations were, taken together, fiscally neutral. We came to the conclusion that there is no silver bullet, no simple revenue neutral solution that would simultaneously maintain the same level of income and make all ratepayers content with the system.
- 2.10 Taking everything into account, we have settled on a package of 30 recommendations which we believe will best deliver against our remit, the principles we have set out and which we believe offers considerable improvements to the current rates system in Scotland.
- 2.11 Some of these are relatively straightforward to introduce and if accepted by the Scottish Government, could be implemented immediately. Other recommendations are more complex and will require legislative change. We recommend that the Scottish Government should consult further with ratepayers and other stakeholders before implementing these changes.
- 2.12 In our engagement with ratepayers and others, we received a wealth of feedback on how the system works, as well as a large volume of suggestions on how to improve it. Many of these suggestions had real merit, and are worthy of further serious consideration. While the main body of this report focuses on our recommendations, we do not want to give the impression that we simply set aside these other ideas and suggestions. In fact, we gave them serious consideration, as described in Annexes (A-C).

2.13 Rates, like many subjects, has its own terminology. Where possible, we have tried to minimise our use of rates terminology (and to explain terms where we use them). However, it has not always been possible to retain accuracy of terminology without use of technical language and a glossary is also included at Annex E.

SECTION 3: THE CURRENT NON-DOMESTIC RATES (NDR) SYSTEM IN SCOTLAND.

3.1 This section briefly outlines how the non-domestic rates (NDR) system (also known as business rates) currently operates in Scotland and provides a useful context for the recommendations and discussions that follow.

Background.

3.2 Non-domestic rates are a tax based on property which is levied in order to help pay for the very wide range of services that councils deliver (such as education, social care, waste management, local roads management and cultural services). The principles of non-domestic rates were established in the Lands Valuation (Scotland) Act 1854. Non-domestic rates in their current form have been in place, not just in Scotland but across the UK, for many generations. In Scotland, they are fully devolved to Scottish Ministers and the Scottish Parliament.

3.3 The amount that each ratepayer will pay depends – in the first instance - on the determined value of their property. The value of each property on the valuation roll is assessed by the local independent Scottish Assessor – and referred to as its “rateable value”. Assessors are currently independent of the Scottish Government and are accountable to local valuation boards and professionally, through the Royal Institution of Chartered Surveyors. The rateable value of a property is generally based on its estimated open market rental value on a specific date³. Not all properties appear on the valuation roll. Some, such as agricultural properties, are exempt from the requirement to be included on the valuation roll.

³ In some cases, where there is not a straightforward evidence base to determine market rental value, the local Assessor will use a more complicated method to estimate rateable values. Where there is a need to employ a more complex method, the local Assessor will follow the relevant practice note, which are published on the Scottish Assessors Association website: <https://www.saa.gov.uk/non-domestic-valuation/draft-2017-practice-notes/>

The infographic below summarises the current system of non-domestic rates in Scotland.

Non Domestic Rates in Scotland 2017

Tax base worth
£7.3 Billion
 Annual Market Rent
 X
 Poundage rate set by
 Scottish Ministers
 =
£2.8 Billion
 Net Annual Revenues



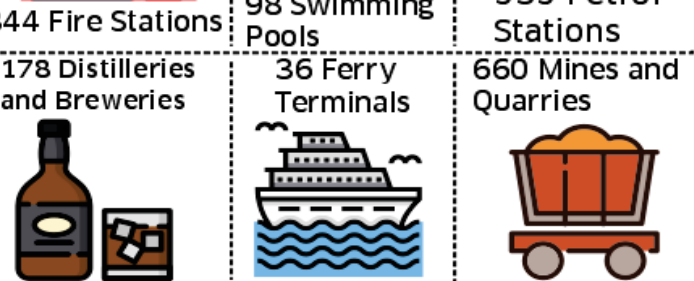
230,000+ Properties
 Liable to Pay Rates



54,000 Shops £1.6B annual rental value	44,000 Offices £1.1B annual rental value	49,000 Industrial properties £1.1B annual rental value
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344 Fire Stations	98 Swimming Pools	535 Petrol Stations
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£600m+ relief on bills provided by Scottish Government

178 Distilleries and Breweries	36 Ferry Terminals	660 Mines and Quarries
100,000+ Small business premises paying no rates	5,000 religious properties paying no rates	1,900 properties which support disabled people paying no rates



- 3.4 There is a right of appeal against the Assessor's determination of rateable value and this right of appeal can typically be exercised within 6 months of a revaluation, within 6 months of a new occupation or, in certain cases if there has been a material change in circumstances. Appeals are dealt with initially by Local Valuation Appeal Panels, but may ultimately be heard by higher courts up to the Land Valuation Appeal Court at the Court of Session.
- 3.5 The pre-relief rates bill is determined by multiplying the rateable value of the property by the poundage. The poundage is pence in the pound rates set annually by the Scottish Government. The same national tax rate (poundage) applies across Scotland.
- 3.6 Rates are collected by councils who will calculate the bill, apply any applicable reliefs and will typically issue bills in March of each year for the following financial year (i.e. for the 12 months beginning on 1 April). Generally bills are paid by regular instalments and debt recovery procedures exist if a ratepayer falls into arrears.
- 3.7 Councils retain the money collected from rates in the council area to fund local services, including those to businesses. Councils also collect council tax and various fees and charges for services they themselves provide.

Reliefs.

- 3.8 Each of the 32 councils in Scotland have local policies on award of relief, but they work together through forums such as the Institute of Revenue, Rating and Valuation to share best practice. As noted above, bills can be reduced by rates "relief" to give the net bill. There are a significant number of relief schemes. For example, ratepayers who occupy a single, low value property may see their bills reduced (or removed completely) under the Small Business Bonus Scheme (SBBS). Similarly, charities may see their rates bill reduced (or removed) through charitable rates relief.

3.9 Table 2 describes the amount of each relief awarded to each type of property across Scotland. Where a property type receives greater than £10 million of relief, this is highlighted in orange:

Table 2: Amount of relief (£ million) awarded by property type.

Property Class	Estimated Relief Amount (£m)									
	Empty	Religious	Charity	Sports	Rural	SBBS	Disabled Persons	Renewables	Other	Total
Advertising	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Care Facilities	0.9	0.1	6.9	0.1	0.0	0.7	33.2	0.0	0.0	41.9
Communications	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Cultural	0.3	0.0	14.1	0.0	0.0	0.7	1.0	0.0	0.0	16.2
Education and Training	2.0	0.1	48.4	0.0	1.2	0.3	4.3	0.0	0.1	56.5
Garages and Petrol Stations	0.7	0.0	0.1	0.0	0.3	4.3	0.0	0.0	0.0	5.4
Health and Medical	0.6	0.0	0.6	0.0	0.0	2.9	11.8	0.0	0.2	16.1
Hotels	0.7	0.0	0.5	0.0	0.1	5.8	0.0	0.0	0.0	7.2
Industrial Subjects	51.2	0.2	7.1	0.1	0.2	39.9	0.8	4.0	0.2	103.7
Leisure, Entertainment, Caravans etc.	2.1	0.1	32.4	10.6	0.1	14.9	0.1	0.0	0.4	60.8
Offices	35.6	0.9	32.6	0.4	0.1	27.1	1.3	0.0	0.5	98.4
Other	2.5	0.0	1.5	0.0	0.2	2.0	0.2	0.8	0.0	7.3
Petrochemical	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public Houses	1.5	0.0	0.1	0.0	0.1	3.4	0.0	0.0	0.0	5.0
Public Service Subjects	1.3	2.5	25.9	0.7	1.3	2.1	1.3	0.0	0.8	36.0
Quarries, Mines, etc.	0.6	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.7
Religious	0.3	22.7	0.8	0.0	0.1	0.2	0.0	0.0	0.0	24.1
Shops	18.1	0.1	13.0	0.1	0.7	69.0	0.1	0.0	0.3	101.4
Sporting Subjects	0.0	0.0	0.5	1.1	0.0	0.5	0.0	0.0	0.0	2.1
Statutory Undertaking (incl. Designated Utilities)	0.2	0.0	0.1	0.0	0.0	0.1	0.0	4.0	0.0	4.4
Total	118.8	26.6	184.7	13.3	4.5	174.1	54.2	8.8	2.4	587.4

Source: 2015 Billing System Snapshot (provided by councils to the Scottish Government).

Notes: Relief totals don't match end-year audited relief amounts as this is a snapshot taken during the year.

3.10 A number of different reliefs are available in Scotland, these currently include:

- **Small Business Bonus Scheme (SBBS)** – Ratepayers who occupy one or more non-domestic properties with a combined rateable value of £35,000 or less may be eligible for a discount of between 25% and 100%. Where a ratepayer has one property with a rateable value under £15,000 the relief is 100%. The majority of the cost of the SBBS is funded by the Scottish Government, but a portion is funded by the Large Business Supplement (a 2.6p supplement on top of the standard poundage rate).

- **Empty/Unoccupied Property** – 50% mandatory rates relief for empty properties for the first three months with a 10% discount thereafter. Industrial property benefits from 100% relief for 6 months, then 10%, while listed properties and properties with a rateable value less than £1,700 qualify for 100% relief for an indefinite period.
- **Renewable Energy Generator** – Stepped discounts of up to 100% for properties that generate renewable energy and provide community benefit or are new build, capped at State aid de minimis.
- **Rural** – relief for properties that provide key services in designated rural settlements, including post offices, public houses small general stores, petrol filling stations and small hotels. Councils have discretion to top this up to 100% relief and can also award up to 100% relief to properties with rateable values less than £17,000 that are beneficial to the local community.
- **Fresh Start** – relief to incentivise occupation of empty shops and offices, pubs hotels and restaurants. A 50% rates discount is offered for the first year of occupation where a property is previously long term empty.
- **New start** – up to 100%, for empty new build properties for up to 18 months. This relief is capped by State aid de minimis.
- **Charity/Not for Profit** – 80% mandatory relief for properties occupied by registered charities. Councils have discretion to top this relief up to 100% and award relief of up to 100% for those who operate properties on a not-for-profit basis.
- **Sports clubs** – 80% mandatory relief for sporting premises including community amateur sports clubs. Councils have discretion to top this up to 100%.
- **Disabled Persons** – Up to 100% relief for properties used for the care, training or education of disabled persons.

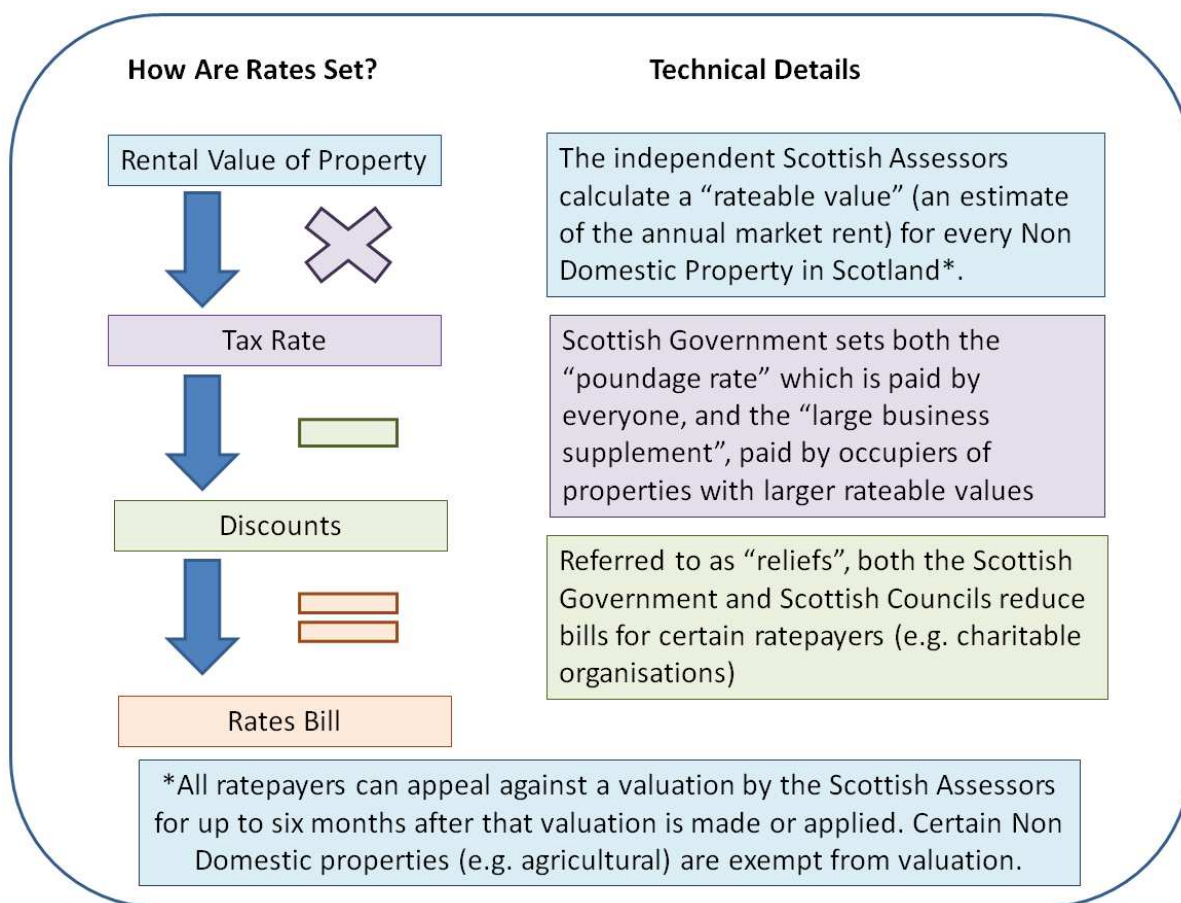
- **Religious** – 100% relief for properties used as places of worship.
- **Enterprise Areas** – Up to 100% relief is available for eligible growth sectors within set geographic Enterprise Areas. Because of the sector specific nature, this is capped at State aid de minimis. Properties occupied by eligible growth sectors are the manufacturing of renewables, life sciences, food and drink manufacturing, creative industries and aerospace.
- **Hardship** – Councils have discretion to offer up to 100% relief for businesses suffering severe hardship provided the business occupying the property meets set criteria and it is in the interests of other local tax payers to do so (since councils part fund this relief).
- **Former Steel sites** – relief for properties involved in steel production at two specified addresses in Scotland.
- **Local reliefs** – Councils have wide powers to create and fund local reliefs within their areas. To date three such schemes have operated.
- **Transitional Relief Schemes** – schemes aimed to reduce the bill increases seen by certain sectors and areas at the 2017 revaluation.

Revaluations.

3.11 In order to ensure that the distribution of rates bills reflects changing property rental values over time, the tax base is “revalued” periodically. The most recent revaluation came into effect on April 1 2017 – 7 years after the previous revaluation. Prior to that, revaluations typically occurred every 5 years. Revaluations are intended to redistribute the tax base to reflect shifts in market values that have taken place since the last revaluation and are not intended to increase the overall tax burden. Generally, if the value of the tax base increases at a revaluation, the poundage will reduce and vice versa.

3.12 Figure 1 provides a more concise summary of how bills are estimated.

Figure 1: How non-domestic rates bills are determined.



Rates policy.

3.13 From a policy perspective, the following principles appear to have dominated decisions on non-domestic rates in Scotland since the inception of the Scottish Parliament.

- A desire to match key policy commitments with the position in England – such as the headline tax rate (poundage), and the timing of revaluations.
- A commitment to provide increasing amounts of non-domestic rate (NDR) relief – especially for small businesses.
- The need to provide an essential contribution to overall council funding.

3.14 Between 2007-08 and 2015-16, the Scottish Government set the rate(s) of poundage and the Large Business Supplement so as to match prevailing tax rates in England, partly in response to pressure from some businesses for a

level playing field across the UK. Reliefs in Scotland were generally slightly more generous than in England.

3.15 In 2016-17, the Scottish Government departed from this approach – adjusting the Large Business Supplement so that higher valued properties paid a higher tax rate in Scotland (of 2.6 pence in the pound) than in England (where the equivalent rate is 1.3 pence) and decreasing the level of empty property relief offered to vacant premises.

3.16 At the time of the 2017 revaluation, the Scottish Government matched the English poundage (known as multiplier), but retained the higher Large Business Supplement, although the threshold at which it became payable increased to £51,000 (the same threshold as in England). Otherwise, the Scottish Government has retained key similarities with the tax structure in England. This is summarised in Table 3):

Table 3: Headline rates of tax across the UK.*

Country*	Properties with a rateable value of up to £50,999	Properties with a rateable value of £51,000 and above
Scotland	46.6p	49.2p
England	46.6p	47.9p
Wales	49.9p	49.9p

*Northern Ireland is excluded as properties were revalued in 2015, meaning that the tax rate is not applied to a comparable tax base in Northern Ireland. It should also be noted that some properties in London pay City of London supplement and a Crossrail Supplement in addition to the poundage.

3.17 The Scottish Government also expanded the Small Business Bonus Scheme, in order to bring more properties into the scheme, and announced additional relief schemes for properties in sectors experiencing significant bill increases at the 2017 revaluation.

Who pays rates?

- 3.18 The occupier of a non-domestic property typically appears on the valuation roll, which is an online register of non-domestic properties as defined by law. As of mid-July 2017 there were over 230,000 properties on the valuation roll, with a combined rateable value of over £7.3 billion. Those numbers will increase as shooting estates are added onto the valuation roll following a Scottish Government decision to repeal the exemption that applied to this type of property up to 1 April 2017.
- 3.19 Much as the tenant or owner occupier of a house (or domestic property) typically pays council tax, the occupier of a non-domestic property is liable for rates. Where there is no occupier to pay rates, liability for the rates bill would normally fall to the owner of the property.
- 3.20 In general the collection rate of non-domestic rates is high (we understand the overall collection rate across Scotland is around 98%). The estimated 2% in each year that remains uncollected would account for some £40-50 million. This represents bad debt write offs (for example when a business goes bankrupt) and some avoidance that nevertheless over time represents a significant loss of revenue to the public purse.
- 3.21 The treatment of non-domestic properties varies greatly. A large number of properties are currently exempt from paying rates. The exact number of exempt properties is not known but may be very roughly estimated to be around 100,000, albeit by their nature the majority of these properties will be of a far lower rateable value than those on the current valuation roll. For example, agricultural properties are exempt both from valuation and from paying bills. Other property groups, such as places of worship, care centres for the disabled and property occupied by charities are subject to valuation and appear on the valuation roll, but see their rates bill eliminated⁴ or substantially reduced as a result of rates relief. As a result, the tax base is actually significantly narrower than the phrase “non-domestic rates” suggests.

⁴ Certain charities may only receive an 80% reduction in their bill if the relevant council does not decide to award “discretionary” rates relief.

3.22 Table 4.1, looks at pre-relief (or gross) bills for different sectors. The equivalent data for properties not subject to valuation, such as agricultural land and properties, are not held centrally.

Table 4.1 - Breakdown of the tax base by sector.

Sector	Total Properties		Total Rateable Value		Total Gross Bills	
	No.	%	£m	%	£m	%
Shops	53,700	23%	1,610	22%	780	22%
Offices	44,100	19%	1,080	15%	520	15%
Industry and Petrochemical	49,200	21%	1,380	19%	670	19%
Health and Education	6,900	3%	790	11%	390	11%
Public Service Subjects*	10,100	4%	360	5%	170	5%
Hotels and Pubs	9,200	4%	410	6%	200	6%
Leisure and Cultural #	23,700	10%	340	5%	160	5%
Designated Utilities	<100	0%	800	11%	390	11%
Other #	36,500	16%	600	8%	290	8%
Scotland total	233,000	100%	3,570	100%	3,570	100%

* This group is made up of varied properties, including military facilities, waste water treatment centres, halls, community centres and airports.

These categories contain large numbers of typically low rateable value properties.

Source: Review Group analysis of the Valuation Roll (April 2017).

3.23 In practice, rates relief will dramatically reduce the bills paid in certain sectors. For example, the “other” heading contains religious buildings, care homes for the disabled and a large number of properties that may qualify for the Small Business Bonus Scheme as a result of having a relatively low rateable value. Similarly, the education sector sees its bills reduced dramatically because universities, colleges and private schools receive charitable rates relief.

3.24 We estimate that shops, offices and industrial properties pay over 55% of both pre-relief and post-relief rates bills.

3.25 Looking further into the data, it is clear that larger properties (those with rateable values over £51,000) pay the greatest share of tax revenues in Scotland:

Table 4.2 - Breakdown of the tax base by size of property (measured in Rateable Value - RV).

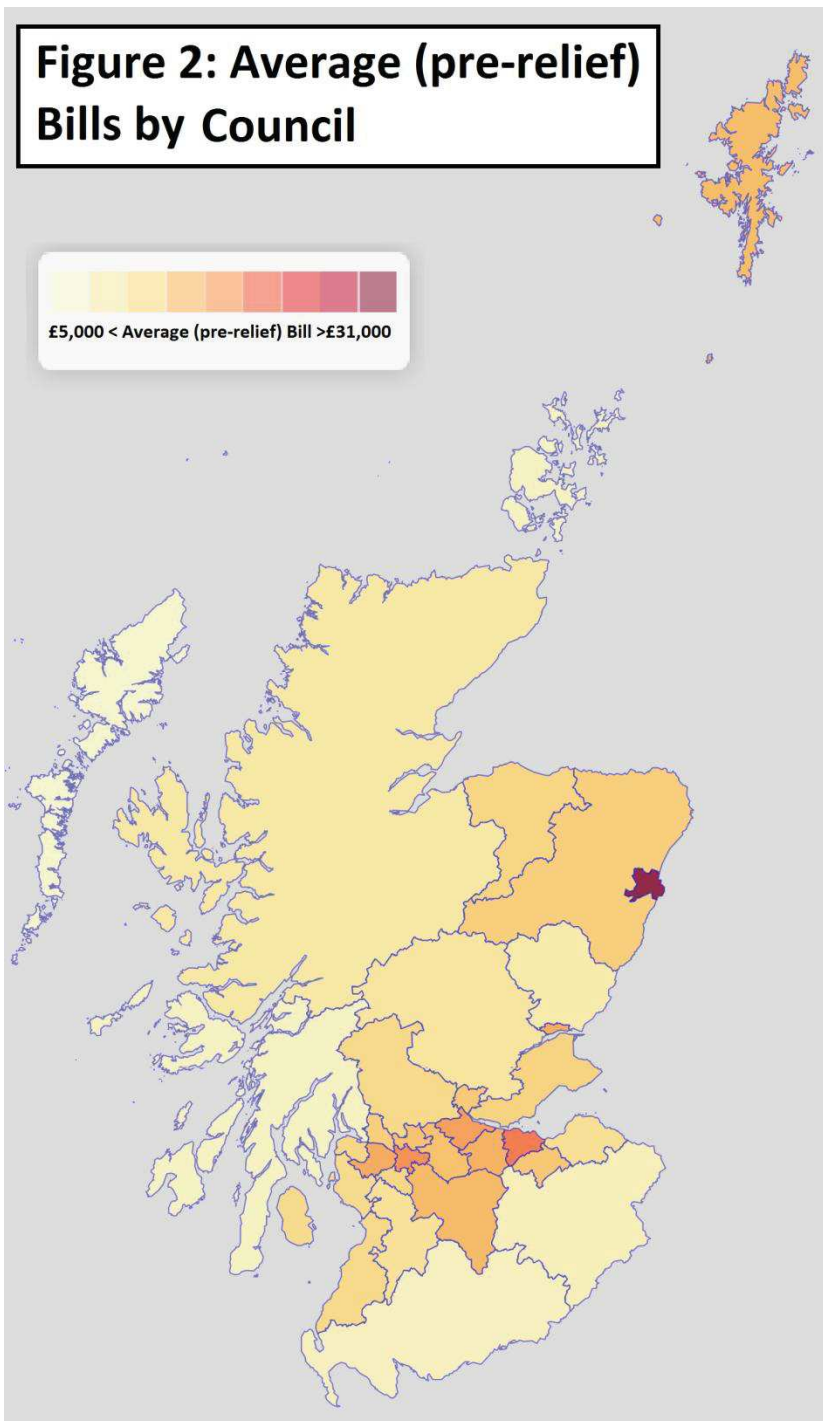
RV Band	Total Properties		Total Rateable Value		Total Gross Bills	
	No.	%	£m	%	£m	%
Zero Rated	7,000	3%	0	0%	0	0%
£1 to £18,000	174,000	75%	980	13%	460	13%
£18,001 to £51,000	30,000	13%	910	12%	430	12%
£51,001 plus	22,000	9%	4,670	63%	2,300	64%
Designated Utilities	<100	0%	800	11%	390	11%
Scotland total	233,000	100%	7,360	100%	3,570	100%

Source: Review Group analysis of the Valuation Roll (April 2017).

3.26 Table 4.2 shows that less than 10% of the tax base (in terms of property numbers) is responsible for over three quarters of pre-relief bills.

3.27 By council area, rates bills are slightly more evenly distributed, although rates liabilities are higher in large cities and lower in more rural areas.

Figure 2: Average (pre-relief) Bills by Council

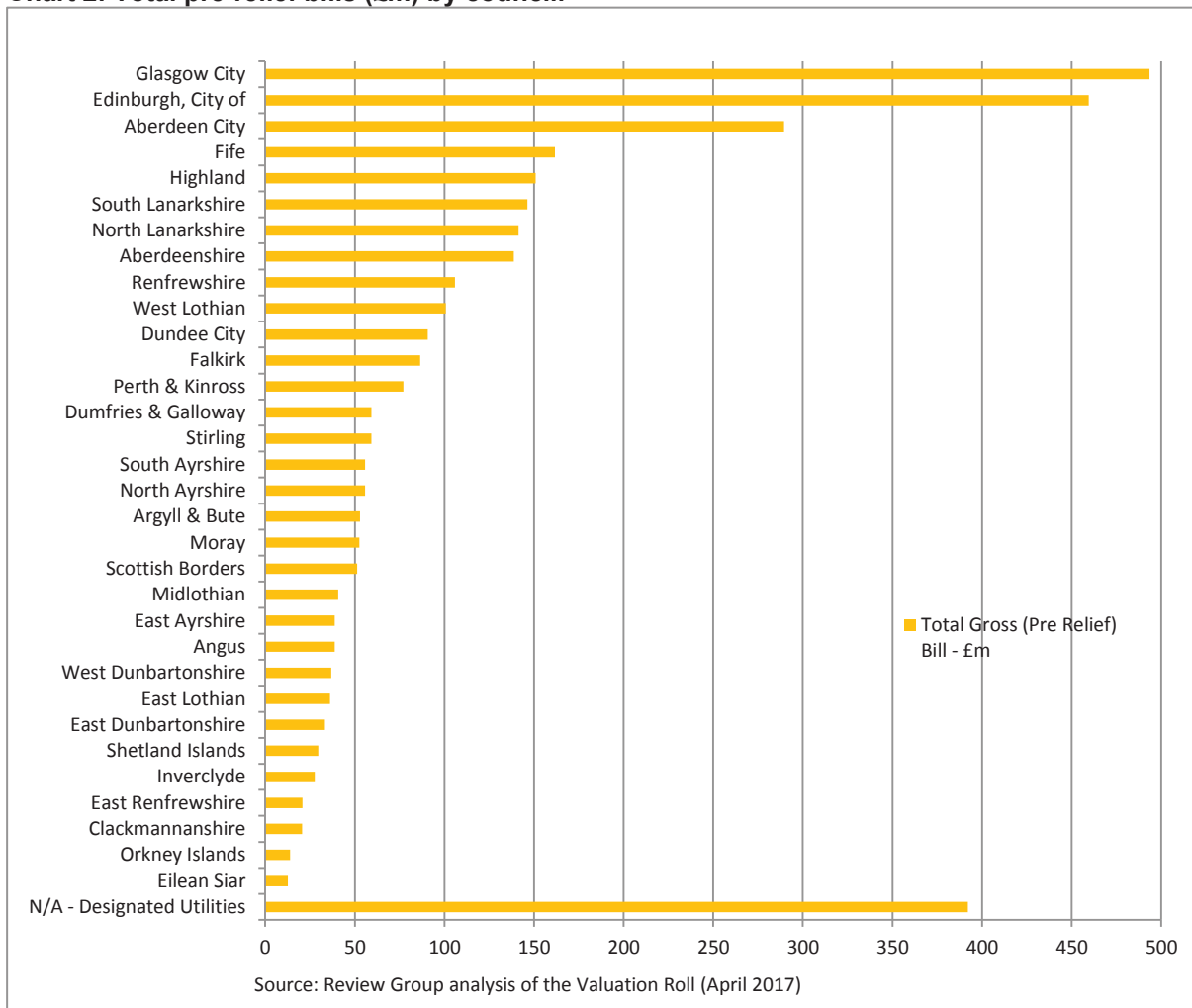


3.28 Figure 2 (left) shows an average pre-relief bills council depicted on a map of Scotland. As the key shows, the average pre-relief bills vary significantly, with average pre-relief bills highest in Aberdeen City at almost £31,000. The lighter coloured areas of the council map have lower average pre-relief bills. For example the council with the lowest average pre-relief bill is Comhairle nan Eilean Siar - just over £5,000.

3.29 Chart 2, shown (overleaf) depicts the total pre-relief bill by council. Total pre-relief bills in Glasgow City and City of Edinburgh councils are higher than in Aberdeen City because there are a

greater number of properties. Together these three cities make up a very significant element of the tax base. Setting aside bills for utilities (such as electricity, gas and water) which are collected on a Scotland-wide basis, Glasgow, Edinburgh and Aberdeen City councils make up around 39% of pre-relief bills, whereas their population is only 25% of the total population of Scotland.

Chart 2: Total pre-relief bills (£m) by council.



How large are non-domestic rates revenues?

3.30 The introduction briefly set out that non-domestic rates account for a fairly large proportion of economic activity when compared with other international commercial property taxes – but that overall the amount of tax paid by businesses in Scotland and the UK remains relatively low by international standards.

3.31 This section briefly sets out how non-domestic rates (NDR) revenues have changed over time. Over the past 20 years, there has been a relatively little change in the “tax burden” - the proportion of GDP accounted for by non-domestic rates. The tax burden has varied between 1.7% and 2.0% of (onshore) GDP between 1998-99 and 2015-16 as shown in Table 5.

Table 5 Growth in non-domestic rate revenues compared to GDP growth, and measures of inflation.

Financial Year	Scottish GDP (onshore only - cash prices) - £m	NDRi - £m	NDRi as a % of GDP (onshore only)	Inflation - Measured by RPI Index	Inflation - Measured by GDP Deflator
1998-99	71,690	1,436	2.0%	1.4%	1.4%
1999-00	73,152	1,497	2.0%	3.1%	0.5%
2000-01	76,669	1,578	2.1%	1.9%	2.1%
2001-02	80,422	1,670	2.1%	1.2%	1.3%
2002-03	84,152	1,705	2.0%	3.0%	2.3%
2003-04	89,554	1,706	1.9%	2.8%	2.2%
2004-05	94,272	1,813	1.9%	3.0%	2.7%
2005-06	100,911	1,933	1.9%	3.0%	2.7%
2006-07	105,893	1,933	1.8%	4.4%	3.0%
2007-08	110,533	1,921	1.7%	4.4%	2.4%
2008-09	113,668	1,933	1.7%	-1.3%	2.7%
2009-10	112,483	2,010	1.8%	5.1%	1.4%
2010-11	112,123	2,138	1.9%	5.1%	1.8%
2011-12	114,891	2,251	2.0%	3.1%	1.4%
2012-13	117,975	2,347	2.0%	3.1%	2.1%
2013-14	123,636	2,367	1.9%	2.5%	1.6%
2014-15	128,305	2,511	2.0%	1.0%	1.5%
2015-16	129,224	2,578	2.0%	1.4%	0.7%
Cumulative Growth - 1998-99 to 2015-16	80.3%	79.5%	minus 0.01 percentage points	60.7%	39.6%

Data Sources: Scottish Quarterly National Accounts, Scottish Local Government Finance Statistics, ONS Price Indices and HMT GDP Deflators.

3.32 This is relatively intuitive – between revaluations, valuations remain fixed, meaning that the only factors driving an increase in bills for a particular property are the change in the tax rate, and the provision of reliefs. Growth in individual non-domestic rates bills have effectively been capped at Retail Prices Index (RPI) inflation over this period, with below RPI increases in the tax rate being quite common. Similarly, the provision of reliefs has expanded quite

substantially. While bills can increase for individual properties following a revaluation, the overall effect of revaluation is typically designed to be revenue neutral – over the course of the revaluation cycle any increases in rates bills should be balanced by reductions in rates bills for other ratepayers⁵.

3.33 As such, the driving factor behind whether or not the “tax burden” increases or decreases largely depends on whether or not economic growth outstrips RPI inflation – although there will also be some growth in tax revenues as a result of any growth in the tax base itself (for example, as a result of new properties, or extensions to existing properties).

3.34 Revenues as a proportion of GDP declined somewhat prior to 2008 - 2009. After 2008- 2009, non-domestic rate revenues have grown faster than the economy – this is largely reflective of the fact that following the financial crisis, GDP growth was relatively constrained, while RPI was relatively high – leading to significant growth in non-domestic rates revenues.

How does this compare with council tax?

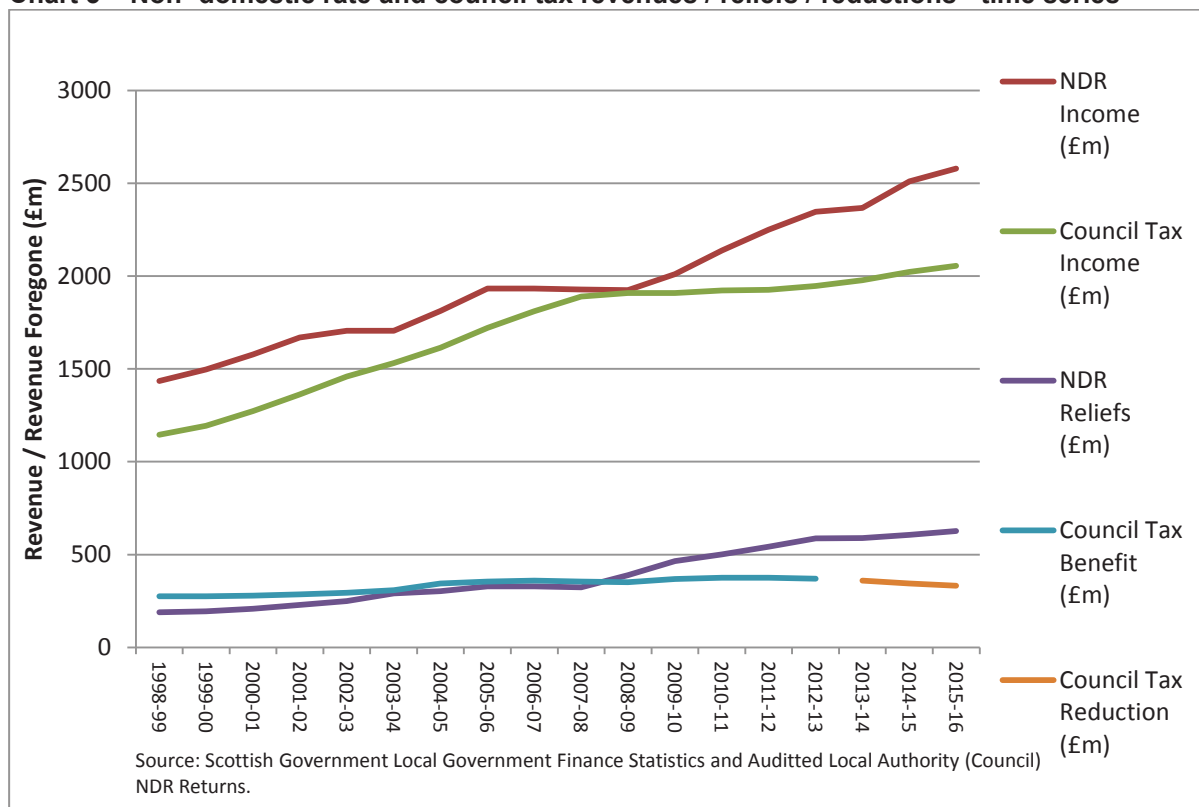
3.35 The approach of mirroring English policy – with differences in tax structure typically being minimal – has not been matched in the Scottish Government’s approach to Council tax. Over the period since 2007-08, the Scottish Government pursued a distinct approach from England – imposing a freeze on rises in council tax rates⁶, and later announcing changes to the “council tax multipliers” that will generate a greater amount of revenue from higher value properties⁷. Chart 3 looks at how revenues from the two taxes have varied over the same time period:

⁵ Changes in the tax rate at revaluation should also account for inflation and likely appeals loss. This is set out for England in legislation at: <http://www.legislation.gov.uk/ukpga/1988/41/schedule/7>. Scottish Ministers are not bound by this legislation, but have matched English tax rates at both of the past two revaluations. Note that the legislation specifically references September RPI, which can differ from the levels of RPI seen over the financial year (April to April) which are described in Table 5.

⁶ It should be noted that England instituted a Council Tax Freeze between 2011-12 and 2015-16

⁷ <https://news.gov.scot/news/council-tax-reform>

Chart 3 – Non- domestic rate and council tax revenues / reliefs / reductions - time series



3.36 The break in the chart (the difference between the purple and the blue line) relates to the localisation of council tax support in 2013, when Council Tax Benefit was replaced with Council Tax Reduction⁸. Partly to maintain consistency, and partly to improve the presentation of the chart, some factors which reduce council tax revenues – such as exemptions and the single person discount - have not been included. Revenues are presented in cash terms rather than on an accruals basis.

3.37 The chart shows that prior to the introduction of the council tax freeze in 2007-08, revenues for both taxes grew at a similar rate. Since the start of the council tax freeze, Non- domestic rates revenues have increased, while council tax revenues have remained broadly constant – with some increase relating to buoyancy in the tax base. As a result, revenues from the two taxes have diverged since the council tax freeze.

3.38 Much as non-domestic rates, council tax also contributes directly to the funding of local services. While council tax revenue has not grown at the same rate as non-domestic rates revenue, this was a result of the council tax freeze in

⁸ <http://www.gov.scot/Topics/Government/local-government/17999/counciltax/CTR>

Scotland, whereby the Scottish Government provided councils with £70 million in funding, cumulatively per annum over the period for which the freeze has been in place in lieu of the revenue that might have been raised had the freeze not been in place. Over the lifetime of the freeze, the Scottish Government provided councils with an additional £3,150 million.

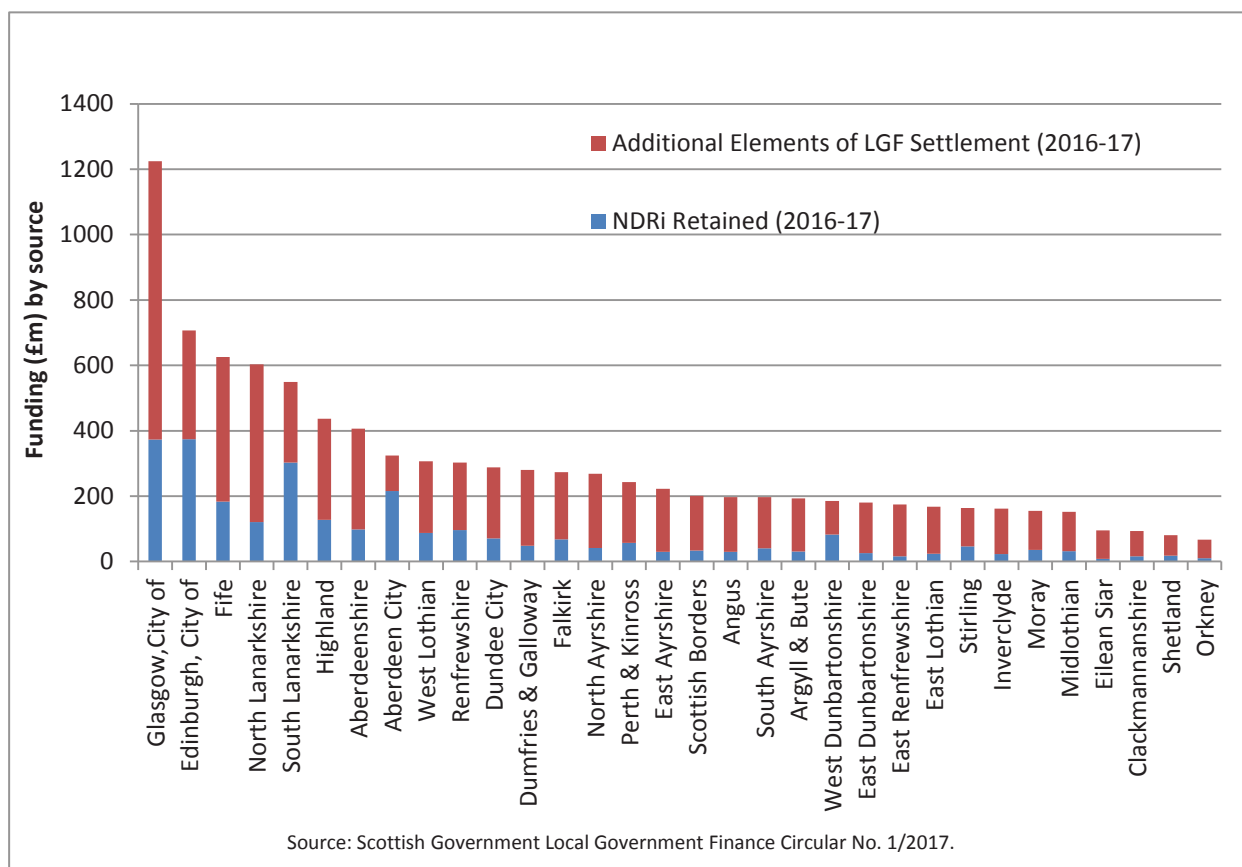
- 3.39 Chart 3 also shows that non-domestic rates relief (the purple line on the graph) has grown substantially over this period. Over the period 2007-08 to 2015-16, NDR income increased by 34% (£651 million), while the value of NDR reliefs granted increased by 94% (£303 million).

Administration of the non-domestic rates (NDR) system.

- 3.40 Across the UK, councils are responsible for collecting rates and for the day to day administration of the rates system with central Government generally setting most rates policies, such as tax rates and relief eligibility. All rates collected locally are retained locally and it is vital that ratepayers understand that every pound they pay in rates is used by their local council to fund the services provided in their area.
- 3.41 In Scotland, the Scottish Government then distributes additional central government grants to councils according to a needs based formula. This ensures that overall council budgets are not just determined by their revenue raising capability alone. The main difference between the Scottish and English non-domestic rates system is the degree to which councils are affected by year to year changes in revenues. In Scotland, if a large ratepayer closes, the council will not suffer any detriment as the Scottish Government will adjust the grant given to the relevant councils to ensure they receive the same overall level of funding.
- 3.42 In our discussions with Scottish councils there was a general preference for continuation of the status quo with the current system offering a level of protection to council revenues, although some appetite for reform of the current Business Rates Incentivisation Scheme (BRIS). Chart 4 (below) shows both

revenues raised from non-domestic rates and other elements of the Local Government Finance Settlement. Even in council areas that raise relatively large volumes of non-domestic rates, the settlement is significantly greater than the amount of revenues collected. For example, non-domestic rates revenues make up two thirds of the settlement for Aberdeen City and just over half of the settlement for Edinburgh. For other council areas, such as Aberdeenshire and the Lothians, rates revenues make up less than 30% of the overall settlement.

Chart 4: Non-domestic rates income (NDRi) retained and total local government finance settlement (by council).



3.43 In England, the implementation of rates retention means that councils collect rates and are allowed to retain this income – subject to a series of restrictions. The objective of rates retention in England is to provide an incentive to councils to grow their tax base – in order to raise more money for local services. This is in contrast to Scotland – where there is relatively little incentive for Scottish councils to grow their tax base – as any increase in non-domestic rates is offset by a reduction in the Local Government Finance Settlement⁹. The drawback of

⁹ Should a large ratepayer locate in a council area the council may benefit from a share of the increased revenue with the Scottish Government under the Business Rates Incentivisation Scheme (BRIS).

this approach is that it may mean a council where the local economy is struggling may have less income to pay for local services than they otherwise would have – placing more risk onto councils and possibly meaning that areas in need of additional funding actually receive less. More discussion on this can be found in Annex C (Section C.6).

However, the BRIS is relatively small, typically accounting for around 0.1% of total revenues, and thus any incentivisation it provides is limited.

SECTION 4: RECOMMENDATIONS.

The 30 recommendations are set out below in full.

MEASURES TO DIRECTLY SUPPORT ECONOMIC GROWTH.

1. A Business Growth Accelerator – to boost business growth, a 12 month delay should be introduced before rates are increased when an existing property is expanded or improved and also before rates apply to a new build property.

- 4.1 To stimulate growth and improvements to property a new incentive should be created to delay any rates bill increases as a result of investment.
- 4.2 Under the current system, as soon as a new property is built or an improvement/ expansion of an existing property takes place, the rateable value (and therefore rates bill) increases. A large number of ratepayers, of all sizes and across both the public and private sectors, claimed that this provided a disincentive and barrier to investment – and penalises ratepayers who make environmental improvements (e.g. solar panels) ,face requirements to improve their properties as a result of regulation (e.g. the addition of sprinklers) or invest in plant and machinery. This allows no time for the ratepayer to recoup any capital investments they have made before their higher rates bill applies.
- 4.3 We propose that a delay period of 12 months is introduced before rates bills are increased.
- 4.4 This would mean that new build property will not become liable for rates for the first 12 months, regardless of whether a tenant is found - a new incentive for those who build and occupy new build property. In the case of a speculative build, it will create a 12 month period where no rates are due, and thereafter empty rates relief would apply for a period, giving the developer time to find a tenant. For a new build property with an occupier from day one, that occupier would benefit from a 12 month rate free period to enable the business to recoup the costs of purchase and/ or investment in fitting out the property for 12 months.

- 4.5 Any investment in existing property would also result in a grace period.
- 4.6 This recommendation is intended to encourage owners/ tenants to improve their existing premises, invest in plant and machinery and to encourage the construction of new build premises thereby increasing economic growth, increase the tax base over time and raise more future revenue. It will also remove what many ratepayers see as a current penalty that exists to penalise them when they improve their existing property, even when they are required to do so by law.
- 4.7 Increasing the levels of empty property relief was suggested by some as the way to incentivise speculative build, but this alternative approach was chosen because it acts not only as an incentive to builders of new property, but also their tenants and those who chose to improve or expand existing property. Our recommendations on empty property relief can be found later in this section (recommendations 25 and 26).
- 4.8 If this recommendation is implemented, New Start relief, which currently offers relief for new build property, should be reviewed to consider whether the system for new build properties could be simplified.

Cost. It is broadly estimated that this measure will cost around £45 million per year.

Implementation. Under our revenue neutral remit this can be implemented in 2018-19.

2. There should be three yearly revaluations from 2022 with valuations based on market conditions on a date one year prior (the ‘Tone date’).

4.9 Currently non-domestic property revaluations normally take place every 5 years although the last revaluation took place 7 years ago in 2010. Revaluations come into force on the revaluation date, which is 1 April of the revaluation year.

4.10 At each revaluation the Assessor will seek new evidence on annual rents from non-domestic properties and use this to inform valuations. It is important for fairness that all evidence is taken from the same point in time so a fixed date known as the Tone Date is used. Currently the Tone date is 2 years prior to the revaluation date so for the 2017 revaluation, which came into force on 1 April 2017, the Tone date reflected property rents on 1 April 2015.

4.11 Although the impact of the 2017 revaluation did not fall within scope of this review, many ratepayers noted the impact of the prolonged period since the last revaluation in 2010 and the resultant shocks to the system when rateable values caught up with movements in property rental markets that had taken place since 2008.

4.12 There was a strong consensus among stakeholders that 3 yearly revaluations, with a Tone Date 1 year prior to the revaluation date, would provide a better timeframe. Halving the date between valuations being made and coming into force would have the advantage of more closely reflecting market trends and reducing volatility without being unduly onerous in terms of the additional administrative input that would be required from ratepayers, the Scottish Assessors and councils.

4.13 More frequent revaluations, taking place every 3 years (coupled with reducing the time between the Tone Date and the implementation date of the revaluation) will go a significant way towards reducing shocks that might otherwise take place at future revaluations, although they will not eradicate these entirely.

4.14 Although some respondents did suggest more frequent or rolling revaluations to us, there is some anecdotal evidence that changes in property markets are generally too modest over a 1 year period to make the process worth doing annually. Annual revaluations would also increase the administrative burden on both businesses to provide information and on the Assessors to process this.

4.15 A revaluation ahead of 2022 was considered, but ruled out, for the following reasons-

- A number of changes would first need to be put into place ahead of the next revaluation including movement of the appeals into the Tribunal Scotland structure;
- New powers and penalties to ensure robust data collection need to be created;
- Improvements to data provision and billing need to be put in place;
- It would be preferable for the appeals lodged against the 2017 revaluation to be largely cleared before another revaluation takes place, and;
- A tone date of April 2019 does not, we consider, allow sufficient time for preparation and would overburden the Assessors.

4.16 We strongly recommend that any move towards more frequent revaluations should be carried out in tandem with reforms to the appeal system to reduce the volume of appeals and speed up the process.

Cost. The Assessors have indicated that more frequent revaluations may increase their workload and require additional resources. We recommend that the Scottish Government begin early discussion with the Assessors about resources to ensure that this can be delivered.

Implementation. We recommend that the next revaluation should take place as planned in 2022 and thereafter revaluations should take place every 3 years from 2025.

3. The Large Business Supplement should be reduced.

- 4.17 The Large Business Supplement (LBS), which we note elsewhere in this report could be better named the Large Property Supplement, is currently paid by all property with a rateable value over £51,000. The rate in Scotland is currently 2.6p, while in England it is 1.3p.
- 4.18 We believe that the LBS should be reduced so that it is in line with the rate set in England.
- 4.19 A case can be made both for and against this recommendation. For example, the benefits to individual ratepayers would be very diffuse. Even for a ratepayer that occupies a property with a rateable value of £100,000, a 0.1p change in the Large Business Supplement would only reduce their bills by £100 per annum. Viewed in isolation, it would be hard to argue that such a move is the best way to spend public funds.
- 4.20 However, our decision to recommend the supplement is reduced is in the context of current Scottish Government policy to ensure that Scotland is the best place to do business in the UK (see discussions in sections 3 and 5).
- 4.21 Several consultation responses raised the issue of the rate of the Large Business Supplement. Most noted the difference with England. In talking to ratepayers and business groups, we have noted a widely held perception that the difference in Large Business Supplement means that Scotland is not as competitive a place for businesses as England currently is. A large majority of the tax base – in terms of tax revenue received at least – sees their (pre-relief) bills determined by a higher tax rate in Scotland than they do in England:

Table 4.2 (repeated from page 30) - Breakdown of the tax base by size of property (measured in rateable value - RV).

RV Band	Total Properties		Total Rateable Value		Total Gross Bills	
	No.	%	£m	%	£m	%
Zero Rated	7,000	3%	0	0%	0	0%
£1 to £18,000	174,000	75%	980	13%	460	13%
£18,001 to £51,000	30,000	13%	910	12%	430	12%
£51,001 plus	22,000	9%	4,670	63%	2,300	64%
Designated Utilities	<100	0%	800	11%	390	11%
Scotland total	233,000	100%	7,360	100%	3,570	100%

Source: Review Group analysis of the Valuation Roll (April 2017).

- 4.22 The costs of changing the Large Business Supplement are significant. To set the rate to 1.3p instead of 2.6p would cost the Scottish Government approximately £60 to million to £65 million per annum.
- 4.23 Maintaining a generous relief package and reducing the Large Business Supplement to ensure that ratepayers face the same (pre-relief) tax bills in Scotland as in England would mean that, from a rates perspective, the Scottish scheme ensures that Scotland is the best place to do business in the UK. Scotland's policy framework is designed to achieve this aim, and the Scottish Government has already foregone significant revenues in order to achieve it, however the presence of the 2.6p LBS rate is damaging perceptions that Scotland's system has achieved this aim.
- 4.24 We therefore recommend that the Scottish Government should reduce the LBS to 1.3p in 2020-21, and sooner if it becomes affordable to do so.

Cost. It is broadly estimated that this measure will cost around £62.5 million in 2020-21 (each 0.1p of the large business supplement raises approximately £4.8 million).

Implementation. Under our revenue neutral remit this can be implemented in 2020-21.

4. A new relief for day nurseries should be introduced to support childcare provision.

4.25 We believe that one of the most important ways to supporting economic growth is ensuring that the workforce is supported by convenient, affordable and accessible childcare. This applies to carers of young children across the public, private and third sectors. Although rates are only one overhead for this sector, we believe a reduction in the rates burden may help enable more of the workforce to return to work after starting a family. As such, we recommend that childcare nurseries benefit from a new 100% relief from 2018-19. This should be evaluated after 3 years to ensure that benefits of the relief have been felt, including by parents and carers.

Cost. This relief will cost around £7 million per year.

Implementation. This can be implemented in April 2018.

5. Town Centres should be supported by expanding Fresh Start relief.

4.26 A common theme that emerged during our review was the continuing pressure on town centres. It was generally acknowledged that there were a number of reasons for this, including changes in shopping habits with availability of parking, pedestrianisation, the growth of out of town shopping and the emergence of the digital economy. As a result, changes to the rating system alone cannot address the issue, although there is some merit in varying rates in town centres and assessing the impact this has. Councils would be the best placed to assess how such changes might best be implemented in their areas.

4.27 Councils have, under the Community Empowerment (Scotland) Act 2014, a wide ranging power to reduce or remove rates from properties within their area, although to date we are only aware of 3 such schemes. We believe councils should be encouraged to use this power more widely.

- 4.28 In the short term, Scottish Government should consider expanding its Fresh Start relief to help rejuvenate town centres with high vacancy rates. Currently this relief offers 50% rates relief for the first 12 months to those who take on certain long term empty properties, many of which are located in town centres. Extension of this relief for a fixed period to incentivise occupation of vacant town centre premises.
- 4.29 Additionally, the Scottish Government should consider expanding the categories of properties that can qualify for Fresh Start relief so that all listed property can benefit. Recommendation 25 reduces the relief for listed empty property so this would provide an alternative incentive for those who take on such empty property. We further propose a new power to enable councils to impose an additional levy on rates in certain limited circumstances, as set out below. The size of this levy might be similar to that already applied in the case of Business Improvement Districts.
- 4.30 This new power would require primary legislation and so cannot be implemented immediately. Once it is, we recommend that councils be invited to submit to the Scottish Government suggested pilot schemes, from which the Scottish Ministers might select no more than 3 which, if approved, would allow a council to levy a modest supplement on out of town businesses (perhaps retail) or predominantly online businesses (such as distribution centres). The amounts raised would then be used to support one or more town centres in the same council area, either by the council using the extra rates revenue raised directly to benefit the town centre(s) identified or by the council using its existing powers to reduce rates either right across the town centre(s) or on certain facilities within the town centre(s) such as car parks. Subject to a formal assessment of whether such schemes are successful, they could then be considered for roll out more widely across Scotland.

Cost. As one example, to expand Fresh Start relief could cost up to £2 million by extending the relief offered from 50% to 100% for the first year and reducing the qualifying period that the property must be empty from 12 months to 6. This relief should be in place for at least 2 years before consideration is given to whether pilot schemes are merited.

In the longer term, allowing a limited number of councils to levy rates on out of town properties and use this to fund relief in town centres as part of a pilot would be revenue neutral.

Implementation. Fresh Start relief could be expanded from 1 April 2018. Enabling councils to levy a supplement on out of town properties would require primary legislation and so could only be introduced in the longer term. Appropriate safeguards would need to be in place to ensure the level of supplement was capped at a reasonable level and that a robust evaluation took place before the scheme was introduced more widely.

6. There should be a separate review of Plant and Machinery valuations with particular focus on renewable energy sector valuations and statutory improvements to property including sprinkler systems.

4.31 Currently plant and machinery valuations are based on the recommendations of the Wood Committee which reported in 1993 and 1999 taking around 15 months and 3 years respectively to reach conclusions. Given the passage of time since that Committee reported and the recommendations of the Wood Committee itself, we consider that it is now time to undertake a further review to assess whether these methods are still reflective of technological advances and emerging industries, for example renewable energy generation, and whether it is appropriate that all regulatory requirements should be included in the valuation.

4.32 This review should be technical in nature and involve valuation and industry expertise.

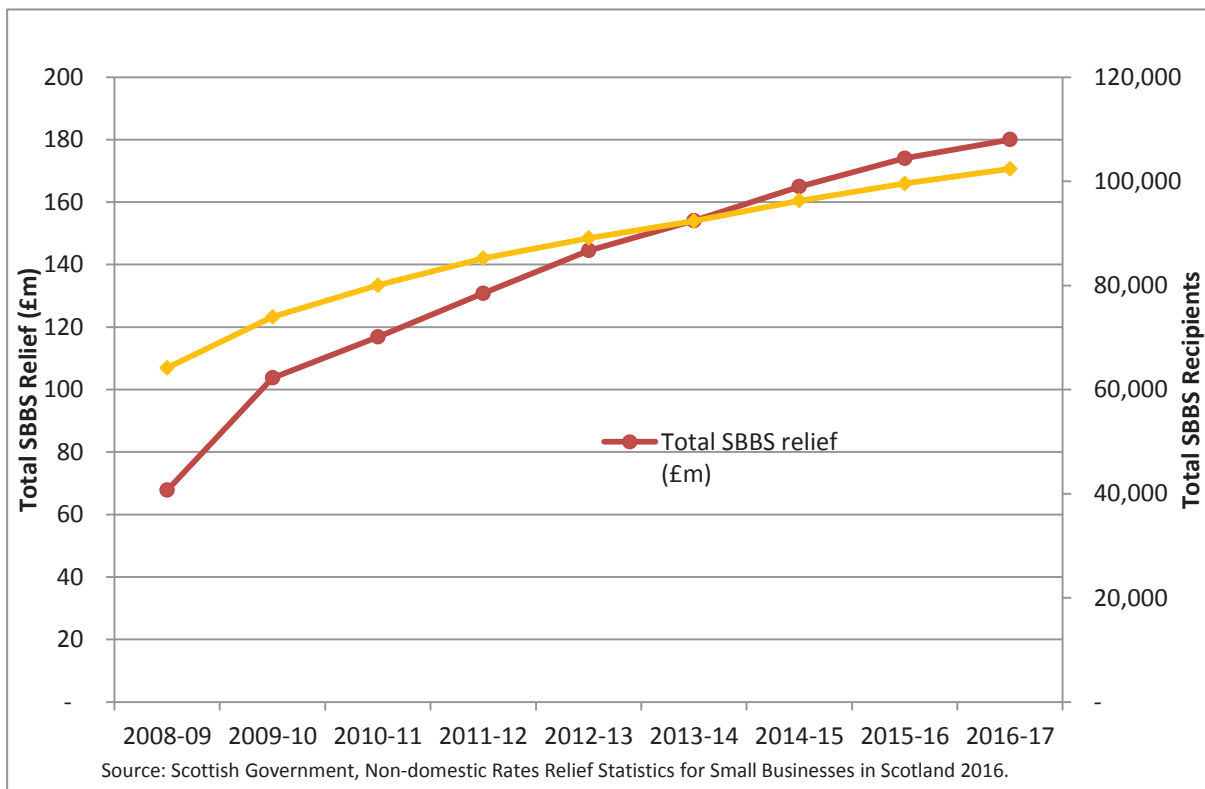
Cost. There will be modest administrative costs associated with supporting the review.

Implementation. This review can commence in the short term and allowing reporting and implementation of any resulting recommendations in time for the next revaluation in 2022.

7. The effectiveness of the Small Business Bonus Scheme should be evaluated.

4.33 The Small Business Bonus Scheme (SBBS) was introduced by the Scottish Government to support economic growth. Considerable anecdotal evidence was presented to us to suggest that it has provided vital assistance to many small businesses. However, the case was also made to us that, as the policy has been in place for a decade with over £1.3 billion of public funds committed (see Chart 5, below), the time was right for it to be formally evaluated.

Chart 5: Small Business Bonus Scheme recipients and relief (£m), 2008-09 to 2016-17.



4.34 A commonly made point to us was that some small businesses in receipt of SBBS would be happy to make a modest annual contribution to the local services they receive (amounts of £500 or £1,000 a year depending on size was suggested to us by several current SBBS recipients). One participant in the consultation process even referred to some local villages where no businesses

paid any rates as 'rates deserts' and others noted businesses who paid no contribution to local services were to some extent disconnected with their local council and community as a result.

- 4.35 Some misuse of the Scheme is also apparent (see recommendation 22).
- 4.36 An evaluation should consider recent policy developments in Northern Ireland, where the equivalent relief was evaluated but found to be misdirected and it was suggested it be replaced with a relief more targeted on town centres. It should therefore include a discussion of whether the current scheme could be adapted to better support towns or include some element of incentivisation in order to promote desirable economic activities (such as paying the living wage, carrying out investment or offering modern apprenticeships).
- 4.37 The evaluation should also consider i) how the SBBS can best be targeted to support local investment, employment and growth (see Annex C4) and ii) the merits of giving councils some autonomy in the design of any reformed SBBS in their areas (see Annex C5).

Cost. There will be modest costs associated with an evaluation if this is carried out independently. The costs will depend on the breadth and scope of the review carried out, but should not be more than a few tens of thousands of pounds.

Implementation. This should be a substantive review, taking on board the views of ratepayers (including those who became newly eligible for the relief following the expansion of the scheme in 2017) and should be initiated as soon as possible with any findings implemented in time for the next revaluation in 2022.

MEASURES TO IMPROVE RATEPAYER EXPERIENCE AND IMPROVE ADMINISTRATION OF THE SYSTEM.

4.38 The measures listed below are generally revenue neutral or carry modest administrative costs to the Scottish Government or public sector, however they would all improve or simplify the system for ratepayers. Taken together, they would improve information about the current system; ensure information is better in future; improving billing; and improve the appeal system.

8. The Scottish Government should provide a ‘road map’ to explain changes to the rating system and should consult whenever possible on those changes, prior to implementation.

4.39 Many ratepayers made a case to us that the Scottish Government must consult on changes to the rates system and involve ratepayers in decision making. Whilst we agree with this in principle, we recognise that the Scottish Government may require, on occasion, to make changes to the rates system at short notice to reflect changing financial circumstances or policy priorities.

4.40 However, we recommend that the Scottish Government should set out clearly a road map for ratepayers to clarify what expected changes are happening and why and should issue timely annual updates of this road map. This will increase certainty for ratepayers and enable better forward planning.

Cost. This is an administrative measure.

Implementation. This should be put in place in time for the start of the 2018-19 financial year.

9. There should be better information on rates made available to ratepayers – co-ordinated by the Scottish Government.

- 4.41 There is a widespread view among many ratepayers, particularly those running small or medium sized businesses, that it is difficult to understand how their rates bills are calculated or how the rates they pay are spent by their council. However we were heartened by the number who expressed their desire for further knowledge.
- 4.42 All ratepayers should have access to clear, concise information on the roles and responsibilities of all those involved in operating the rates system; on the tax they can expect to pay and on what this is used for by councils.
- 4.43 We recommend that significant improvements are made in the information given to ratepayers by all public bodies involved in the rating system. This should include measures to ensure ratepayers understand the link with rents and that when negotiating rents with the landlord the rent paid by them, and others, may impact on the amount they pay in rates and on relief entitlement. We are also aware of some advisors who will charge fees to ratepayers for services which are available free of charge, such as on how to apply for relief, or who advise them to withhold information and appeal their valuation. This is often so that they can receive a portion of the “savings” that the ratepayer may have received in full had they not withheld information and had the correct valuation from the outset. Educating ratepayers will raise awareness and help them avoid paying for services they can get for free.
- 4.44 The Scottish Assessors need to improve the information available on rateable value calculations and methodologies (this is discussed in more detail in recommendation 11). Councils need to improve the information they provide to ratepayers about how rates paid fund local public services and about any local relief policies. The Scottish Government needs to improve the overarching information made available publicly, such as on national reliefs and the legislative framework.

- 4.45 Information improvements should relate not just to current methods of disseminating information (for example by updating current websites), but also to the introduction of other formats such as info-graphics and video formats to provide visual information for those who prefer these formats and where information can be more clearly presented in this way.
- 4.46 The current rates calculator offered should be adapted to allow ratepayers to model scenarios and estimate bills for forward years rather than for just the current financial year (subject to caveats that inflation rates and Government policies may change). It should allow a ratepayer to enter in estimated inflation figures to predict the impact these may have on the poundage in forward years or the impact that rent increases may have on their rateable value (and therefore bill) at future revaluations.
- 4.47 Language and terminology also need to be reconsidered as it is clear that many ratepayers (particularly cited to us by those who run small or medium sized businesses) find the language currently used confusing. As one example, the Large Business Supplement is paid by some small or medium sized businesses and as set out in recommendation 3, it should be renamed as the “large property supplement”.
- 4.48 We feel it is crucial that all the work described above begins early as a priority and an Implementation Group to facilitate this should be set up and chaired by a designated Scottish Government lead official with clear deadlines for completion.
- 4.49 Ratepayers and their representative bodies should have opportunities to feed into all these developments to ensure all information is fit for purpose and for its intended audience.
- 4.50 No organisations representing minority, disadvantaged or ethnic ratepayers made representations to us. The Scottish Government, councils and Assessors should therefore consider whether engagement with those groups is needed when developing information provisions.

Cost. There will be minor administrative costs associated with these measures. Provision of clear and relevant information will not only better inform ratepayers but also free up more of their time to focus on their core activities.

Implementation. These measures can be implemented in the short term.

10. A full list of recipients of rates relief should be published to improve transparency.

- 4.51 Currently it is relatively easy for anyone to establish the rateable value of a property, provided it is on the valuation roll. Recommendation 28 suggests that in order to promote openness and transparency far more non-domestic property should appear on the valuation rolls.
- 4.52 However the valuation rolls only show part of the picture about who pays rates and what the actual rates bill is. Whether or not a property is in receipt of relief is currently not transparent and elsewhere in this report we give some examples of erroneously awarded relief. Equally there will always be those who fraudulently claim relief and those who are entitled to claim relief but are unaware that they may do so.
- 4.53 We did find online published details of relief awarded by some councils (Edinburgh and Moray) but believe this should be much more readily available and a national list of all relief awarded for all properties should be published.
- 4.54 This will have several benefits. It will help ratepayers understand reliefs better and raise awareness of what reliefs are available to those who do not claim. It will go some way to ensuring Council decisions on relief (including to ALEOs) are subject to additional ratepayer scrutiny and act as a deterrent for avoidance.

4.55 While some may seek to utilise these lists to target those who are potentially entitled to relief but are not claiming, as part of our recommendation on improved information to ratepayers we recommend highlighting that relief is free to apply for and to be wary of anyone who offers to apply on their behalf.

Cost. None. This can be managed administratively.

Implementation. This should be done as soon as possible and no later than 1 April 2018.

11. A “rateable value finder” product should be used – to identify properties that are not currently on the valuation roll, so as to share the burden of rates more fairly.

4.56 During the course of our work, we learned that there are commercial companies in the UK who will identify property which should be on the valuation roll, but is not.

4.57 Premises that are not on the valuation roll, but should be, will not be making any contribution to local services and any measure that can ensure they do make the same contribution as other ratepayers will increase fairness in the system and raise additional revenues to fund local services.

4.58 To the best of our knowledge these services are not used in Scotland, but we recommend that their use is implemented in Scotland immediately.

Savings. Based on experience in England this may raise around £1 million per year if applied in Scotland.

Implementation. This is an administrative measure that can be introduced in the short term.

12. Assessors should provide more transparency and consistency of approach. If this is not achieved voluntarily, a new Scotland wide Statutory Body should be created which would be accountable to Ministers.

- 4.59 Our assessment, based on the information we have garnered during our consultation, is that the Scottish Assessors are well qualified for what they do and that they generally carry out their functions diligently and to a high professional standard. However, many ratepayers expressed a view to us that the Assessors should be more open and transparent and also that they could and should provide more consistency, both in their valuation methodology and in the level of service they provide across Scotland.
- 4.60 We also note that the Assessors carry out other functions, such as valuation of domestic property for council tax purposes and maintenance of the electoral roll, both of which are outwith the remit of this Group.
- 4.61 The current structure of the Assessors provides a good model of efficiency and has a key strength in its local knowledge so we propose no major structural change. It is also a strength of the system that the Assessors are independent of Government and value property based on market evidence without political interference. These principles should remain in any reform.
- 4.62 However, we believe that changes do need to be made to the accountability and behaviour of the Assessors.
- 4.63 We therefore recommend the following changes:
- a) All ratepayers should have access to consistent levels of service and advice, regardless of where they are located in Scotland;
 - b) Assessors should consider an account manager based approach with named individuals in an Assessor's office given the role of key contact for individual sectors or property types within an individual area;
 - c) Where local practice notes are used for valuation of any property, these must be made available online to all ratepayers;

- d) Where the Assessors propose to change valuation practice notes this must be done in consultation with relevant external bodies and draft notes must be published online for comment for an appropriate period before they are finalised;
- e) The point at which new build property is added onto the valuation roll should be consistent;
- f) The Scottish Assessors Association (SAA) should produce and publish an annual report on valuation practice and outcomes. This is particularly important in a revaluation year where the report should be substantive and highlight the average and range of movements in rateable value across council areas and sectors, any changes to valuation methodologies and summarise engagement with national and local trade bodies. Outside of revaluation years, a shorter summary report should be produced;
- g) Assessors should work through the SAA to standardise the level of service they provide, in particular to assist those ratepayers looking to build new or improve existing property to help them determine the potential estimated rateable value that will result;
- h) The Assessors should provide more information on the evidence used at each revaluation to support valuations. While we appreciate that this will require detailed consideration in terms of what can be made available within the boundaries of data protection and commercial sensitivity, at the minimum ratepayers should be informed which comparator rental properties were used to inform their valuation;
- i) Appointments to the SAA should be more transparent, and;
- j) Minutes of meetings with sector representatives should be published (with any commercially sensitive data redacted as necessary).

4.64 The above could be achieved by giving more powers to the SAA to enforce, making the SAA a Statutory Body (with regard to the non-domestic valuation element of the Assessors function) reporting to the Scottish Ministers.

4.65 Alternatively, the SAA could voluntarily introduce these changes. That would ensure that they are implemented at the earliest opportunity. If the SAA agrees, it should publish, as a first step, by June 2018, a proposal outlining how it will implement the above principles.

Cost. There will costs associated with these measures as additional resource may be needed by the Assessors.

Implementation. This is a medium term measure as legislative change may be needed. However, it is possible that Assessors may adopt many of these suggestions voluntarily without the need for legislation and that would be our preferred course. Should the Scottish Government choose to make the SAA a Statutory Body with enforceable powers over all Assessors and with Ministerial Accountability, there should be wide consultation with ratepayers over the nature of this.

13. The current criminal penalty for non-provision of information to Assessors should become a civil penalty and Assessors should be able to collect information from a wider range of bodies.

4.66 We are of the view that ensuring valuations are correct from the outset is key and benefits everyone. Whenever possible ratepayers should be paying the correct amount from the start and should not rely on the sometimes costly and lengthy appeals process to ensure the rates paid are correct. Having the correct value from the start gives the ratepayer certainty over rates that will be due, provides the Scottish Government with certainty over income levels and reduces administration on ratepayers, Assessors and the Appeal system and ultimately the legal system by reducing the need for appeals. Given the sheer volume of appeals, it is critical that improvements are made to reduce the need for appeals (see also recommendation number 19).

4.67 Considerable evidence was presented to us to indicate that the provision of information by ratepayers to Assessors to enable Assessors accurately to calculate rateable values was often poor and that this happened for various reasons, including where ratepayers were advised to do so by a professional rates advisor (who stood to gain a portion of any reduction in rates paid following a successful appeal).

- 4.68 The lack of visibility of some Assessors was also cited as a reason for withholding information and it was noted by some ratepayers that they had a very low awareness of who the Assessors were and why it was important to provide them with the necessary information. The Assessors and the Scottish Government should work to improve understanding of roles and responsibilities and why providing the necessary information upfront is in everyone's interest.
- 4.69 Currently Assessors only have powers to request information from a limited number of bodies/ individuals including the owner and occupier of the property. In order to facilitate better information provision, the powers of the Assessors should be extended to allow them to request information from a wider a range of bodies and individuals to help inform accurate valuations. This list should be extended in consultation with the Assessors but may include architects, builders, construction firms etc.
- 4.70 The current penalty for non-provision of information is a criminal penalty and the general view expressed to us was this was very rarely, if ever, utilised. We recommend that this power should become a civil power and should initially be introduced as a fixed fee, but eventually should become linked to a percentage of rateable value to ensure it is proportionate and reviewed regularly to ensure the penalty acts as a disincentive for withholding information. It is not the intention that this penalty be used to raise new revenue, but rather that it acts as a deterrent for withholding information and incentivises full disclosure of information and reduces the volume of appeals. In this way, it should ensure that the appeals system sees a reduction in the number of appeals, and so is able to cope with more frequent revaluations.
- 4.71 Finally, we heard evidence that many public sector ratepayers tend to appeal by default and we recommend that the Scottish Government considers writing to public bodies to make it clear that they are expected to fully engage with Assessors and provide any necessary evidence to them, rather than rely on the appeals system.
- 4.72 Recommendation 16 creates a new penalty for non-provision of information to councils.

Cost. These measures will not carry any additional costs. It is hoped that, when combined, they may lead to modest savings by reducing the costs associated with the appeals system.

Implementation. These are a mix of administrative options that can be introduced in the short term, such as encouraging the public sector to provide better information. Other measures, including a new penalty, will require legislative changes that can be introduced in the longer term.

14. Standardised rates bills should be introduced across Scotland.

4.73 Currently each of the 32 Scottish councils issues bills to ratepayers using a range of commercial billing software systems. Some ratepayers cited inconsistency in billing across Scotland. Others noted that different bill formats create confusion where ratepayers hold multiple properties across different council areas with a resultant administrative burden in managing the different formats.

4.74 We recommend that a working group be set up, with appropriate council and ratepayer representation, to ensure that as far as possible rates bills follow the same format right across Scotland. And these standard bills should be available in time for bills issued in 2019-20 financial year.

4.75 While there is already a small element of shared services in Scotland where 2 councils use systems to bill on behalf of other councils, we recommend that all councils be encouraged to work together as contracts are renewed to ensure a common billing system can be implemented across Scotland. Not only should there be savings from joint procurement of, and support for, software system(s) but this should also facilitate knowledge sharing. We have no desire to see councils lose autonomy over local decisions nor of staff being relocated. A single system would allow better data sharing, for example fraud could be more readily spotted and potentially allow joint enforcement action where fraud occurred across boundaries.

- 4.76 For ratepayers, the key benefit would be standardisation. Some may also benefit from a reduction in form filling. For example, a ratepayer with properties across 32 council areas could opt to receive a single itemised bill for all properties in Scotland and make a single payment on an online portal which is then apportioned to all 32 councils.
- 4.77 Standardisation would be expected to improve the quality of information held by the Scottish Government which in turn should enable it to undertake more accurate modelling (for example of the costs of relief) to ensure that assistance can be better targeted.

Cost. There will be modest costs associated with the necessary software charges. Some of these costs would be offset by reduced administration costs as more councils sign up for online billing and payment over time. The eventual move to a single billing system could be minimised if councils gradually migrate to a single shared service as local contracts come up for renewal instead of procuring new systems.

Implementation. The move to a single billing system can be largely done administratively as contracts are renewed.

15. Ratepayers should be incentivised to sign up for online billing where available except in exceptional circumstances.

- 4.78 Rates bills still tend to be posted out and feedback suggests that technology is lagging behind the online billing and payment systems used for paying most other bills.
- 4.79 To reduce administration costs for councils associated with printing and posting out bills, we recommend that councils move rapidly to digital billing and online payment where these facilities already exist or are planned to roll out in coming years.

4.80 Where facilities exist to apply online, relief generally should only be available on the condition that a ratepayer signs up for online billing and direct debit (or other automated) payment.

4.81 We recognise that some ratepayers live in areas with no or very limited digital connectivity. In these cases, we recommend that councils have the power to allow an exception to be made. However, we suggest that the majority of ratepayers should have access to this service by the next revaluation in 2022.

Cost. There should be no additional cost to this measure and savings should be made for councils in reduced administration costs as more sign up for online billing and payment over time.

Implementation. It is hoped that many will sign up to these services voluntarily. Although legislative changes could force the requirement for online billing and payment, that option may not suit all ratepayers so a softer approach is the preferred option.

16. A new civil penalty for non-provision of information to councils by ratepayers should be created.

4.82 In a small number of cases, ratepayers may fail to inform a council about a change of circumstances (such as a change in the occupier of a property) or may provide false declarations when applying for relief. An example of where this could apply could be where a property is a self-catering let but the owner/tenant receives bills for council tax, rather than non-domestic rates. New civil penalties should be available to councils in such cases with both the owner and tenant of any property held liable. There should be consultation with interested parties before the level(s) of these penalties are set.

4.83 It is not the intention that this penalty is used to raise new revenue, but rather that it acts as a deterrent for withholding information.

4.84 Recommendation 13 deals with penalties for non-provision of information to Assessors.

Cost. This will not carry any additional costs.

Implementation. These new penalties will require primary legislative changes that can be introduced in the longer term.

17. Councils should make faster refunds of overpayments to ratepayers.

4.85 A small number of ratepayers noted that councils sometimes take excessive periods (up to 6 months in one case) to refund overpayments to ratepayers.

4.86 All ratepayers should be entitled to a prompt repayment within a 30 working day target. The Scottish Government should monitor this to ensure councils' performance meets this target.

Cost. We hope that councils will all voluntarily adopt and follow a 30 day target. If they do not do so, the Scottish Government should make this a Statutory target, monitored as appropriate with interest payable by councils should the 30 day period be exceeded.

Implementation. These measures can be implemented in the short term if adopted voluntarily. If legislation is needed to force councils to comply, this will delay implementation.

18. Councils should be able to initiate debt recovery at an earlier stage.

4.87 Just as ratepayers should receive prompt payments from councils, councils should expect the same from ratepayers. Currently councils cannot take enforcement action for non-payment of rates until after 30 September in any year. This is in contrast to council tax whereby enforcement action against citizens commences if the first planned instalment is missed.

4.88 These two local taxes should be brought into line and rates should be recoverable if no payment is received by the date of the first planned instalment.

Cost. There should be no cost to this measure.

Implementation. This requires primary legislation so is a longer term measure.

19. Reform of the appeals system is needed to modernise the approach, reduce appeal volume and ensure greater transparency and fairness.

4.89 There is already some reform of the appeals system underway and the valuation appeal panels are planned to transfer into the Tribunals Scotland structure at the next planned revaluation in 2022.

4.90 Significant numbers of appeals have also already been lodged against the 2017 revaluation and these will require to work their way through the current appeal system.

4.91 We were surprised to hear from many ratepayers, including those in the public sector, that they tend to lodge appeals as a matter of course. Whilst we agree that everyone should have a right of appeal, the resulting volume of appeals inevitably clogs the system and measures should be taken to reduce the number of appeals. The move to more frequent revaluations where valuations more closely reflect current markets is one of a number of measures we have recommended which are aimed at reducing the level of speculative appeals so that where genuine errors are made these can be rectified quickly. We believe it is important to do so.

4.92 We recommend that the Scottish Government incorporates the following principles at the point at which panels transfer to Tribunals Scotland.

- a) Appointments to panels, including the appointments of Chairs and Secretaries, should be made through an open and transparent process;
- b) Diversity on panels should be sought, so far as possible, when appointing members, Chairs and Secretaries;
- c) Consideration should be given to introducing a basic remuneration for panel members and Chairs;
- d) Appointments should be for fixed terms, with scope to renew at regular intervals;
- e) Panel members should have a clear code of conduct to follow, including a process for registering conflicts of interest;
- f) There should be no geographical limit to the area in which panel members must live and/ or work;
- g) There should be mandatory formal training for panel members at regular intervals;
- h) All hearings should be held in public and advertised in advance;
- i) The appeal process should be as streamlined as possible and encourage prompt and full exchange of all information ahead of formal hearings;
- j) There should be a process for fast tracking of appeals;
- k) Guidance for those appearing before committees under the new structure should be available well in advance of the structural change and this should be regularly reviewed;
- l) All panel decisions should be published online;
- m) Appeal panels should also hear assessment appeals against councils decisions on relief eligibility;
- n) Panels should have a power to refer complex cases direct to higher Tribunals/ courts, and;
- o) Fees should be considered for lodging an appeal to cover any costs associated with the structural change. If introduced, a fee should be proportionate and linked to rateable value.

4.93 One additional key principle that should be introduced is that panels should have the power to increase rateable value at an appeal hearing where evidence has emerged to support this.

Cost. There will be some associated costs primarily through offering remuneration to panel members and Chairs. These are difficult to quantify at this stage as the process of moving into the Tribunals Scotland system is still some years away.

Implementation. These are long term measures, which can largely be done administratively as part of the planned move to Tribunal Scotland and we recommend they should be implemented in time for the next revaluation in 2022.

MEASURES TO INCREASE FAIRNESS AND ENSURE A LEVEL PLAYING FIELD.

20. A General Anti-Avoidance Rule should be created to reduce avoidance and make it harder for loopholes to be exploited in future.

- 4.94 There will always be those who seek to avoid tax and they do so to the detriment of the majority who abide by the rules.
- 4.95 Individual measures can be taken to close known tax avoidance schemes, but an additional general power provides more flexibility if new schemes arise.
- 4.96 Much tax legislation includes a general anti-avoidance rule (GAAR) which gives greater power to billing and collection authorities (which in the case of rates would be councils). The power can apply to both those who actively avoid and those who promote avoidance schemes. The power should also allow for additional individual measures to be introduced quickly to remove any new avoidance schemes which occur and to create new penalties for avoidance.

Savings. The exact value of rates lost through avoidance is not known as no data are collected. Some avoidance occurs when ratepayers abuse measures which have been put in place to support genuine ratepayers although it is not always possible to differentiate between the two. Several councils informally estimated that up to 1% to 2% of rates income was lost to tax avoidance. While it is unlikely that any tax system will be 100% compliant, if it were assumed that half of all avoidance were reduced by these combined measures, this would raise £21 million per annum.

Implementation. This is a longer term measure as legislative change is required to create the new rule along with measures listed separately below to close known loopholes.

21. To counter a known avoidance tactic, the current 42 days reset period for empty property should be increased to 6 months in any financial year.

- 4.97 There will always be those who exploit loopholes to reduce the tax they pay and this is unfair on those who do pay.
- 4.98 We understand that a current avoidance tactic for empty property is to temporarily bring the property back into use for a short period (this may include using the property to store a small amount of goods relative to its size and/ or signing 42 day leases). Under current legislation this resets the empty relief period and allows ratepayers to take advantage of the more generous empty property relief entitlements designed for short term empty properties over and over again.
- 4.99 We therefore recommend that empty property relief for all classes of property be changed to increase the reset period to require a period of 6 months occupation in any financial year before the relief can be reset. This 6 month period may be a discontinuous period to facilitate use of empty property for pop up or short term uses.
- 4.100 Further recommendations are made on empty properties in recommendations numbered 5 and 26.

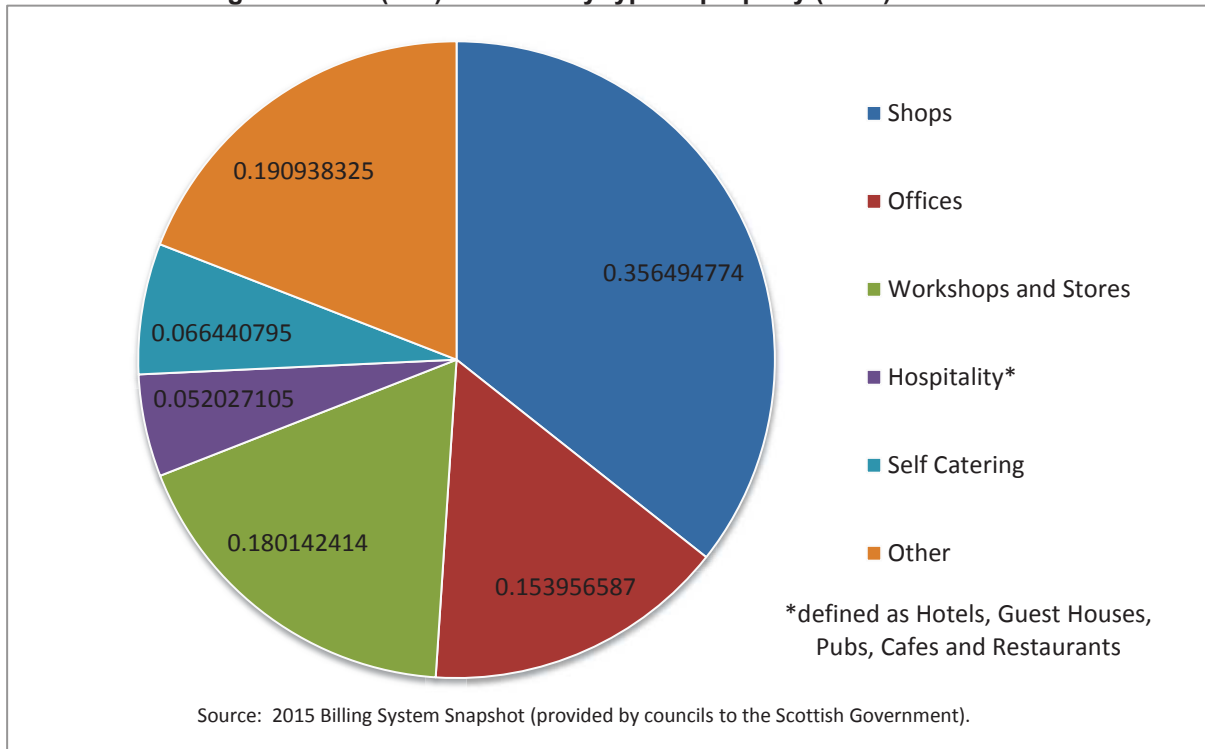
Savings. Savings will occur from reduction of avoidance overall. To avoid double counting the total of all avoidance savings are captured under recommendation 20 that a general anti avoidance rule be created.

Implementation. This is a longer term measure as legislative change is required.

22. To counter a known avoidance tactic for second homes, owners or occupiers of self-catering properties must prove an intention let for 140 days in the year and evidence of actual letting for 70 days.

- 4.101 It was brought to our attention that an avoidance tactic used by some property owners to avoid payment of council tax on second homes is to claim that the property has moved from domestic use (liable for council tax) to non-domestic use as a self-catering property (and liable for non-domestic rates). An application is made for SBBS and no rates are payable so the contribution to local services becomes zero. Currently the criteria to switch from the domestic to non-domestic use is fairly loose and only requires an intention to let out the property.
- 4.102 We recommend that the criteria for self-catering should become more strict, as they are currently in Wales, and require the owner to demonstrate that the property has been actually let for 70 days in any tax year and also is actually available to let for 140 days in the same tax year before they can move onto the valuation roll and that if they cannot so demonstrate they should remain liable for council tax.
- 4.103 In addition, any application for SBBS from a self-catering property should require the ratepayer to provide similar information to the council on actual let periods before relief can be awarded.
- 4.104 Over 10,000 properties classed as self-catering claimed SBBS at an annual cost of over £9 million in 2015. As the scheme has expanded since 2015, the value of these claims has likely grown. As Chart 6 shows, this means that self-catering claims make up around 7% of total SBBS costs.

Chart 6: Percentage of SBBS (in £) awarded by type of property (2015).



4.105 Clearly, many of these will be genuine self-catering properties and it is not possible to estimate how many are second homes that are not actually let out.

Savings. Savings will occur from reduction of avoidance overall. To avoid double counting the total of all avoidance savings are captured under recommendation 20 (creation of a general anti avoidance rule).

Implementation. This is a longer term measure as legislative change is required.

23. The Scottish Government should be responsible for checking rates relief awarded, to ensure compliance with legislation.

- 4.106 Currently the rates system is administered by councils. We do not propose any fundamental change to that system.
- 4.107 However, we heard about a small number of examples where charity relief had been awarded incorrectly in Scotland, for example councils are awarding charity relief to some of the trading arms of the parent charity. Such profit making entities are not entitled to relief but are being awarded it nonetheless. This is a compliance issue rather than a recommended change. We do not suggest that this problem is wholesale nor that councils do not manage the rates system effectively. But we recommend a formal review of the provision of charity relief in their areas to ensure that relief ceases to be provided to charities' separately established trading arms and to correct any errors which have arisen.
- 4.108 As there are over 100,000 premises in receipt of relief in Scotland it has not been possible for us to analyse each and to determine whether every one of those individual relief awards are correct. We believe as indicated that councils do manage the rates system effectively. However for example, if only 0.5% of the £660 million of relief awarded in Scotland was erroneous then this would equate to over £3 million in savings that could be found.
- 4.109 We believe that to increase fairness where relief has been erroneously awarded this should be corrected and propose that the Scottish Government should write to councils to remind them of rules around relief award (including for profit making arms of charities) and encourage them to audit current recipients. This recommendation is not about change, but is about ensuring compliance with the current system.
- 4.110 In addition, the Scottish Government receives data on relief awarded which is provided by councils to help with modelling and income estimates. This exchange of data should be a two way process (subject to any necessary data sharing agreements) and where the Scottish Government spots anomalies it

should notify councils to ensure relief is targeted at those who fit the required criteria.

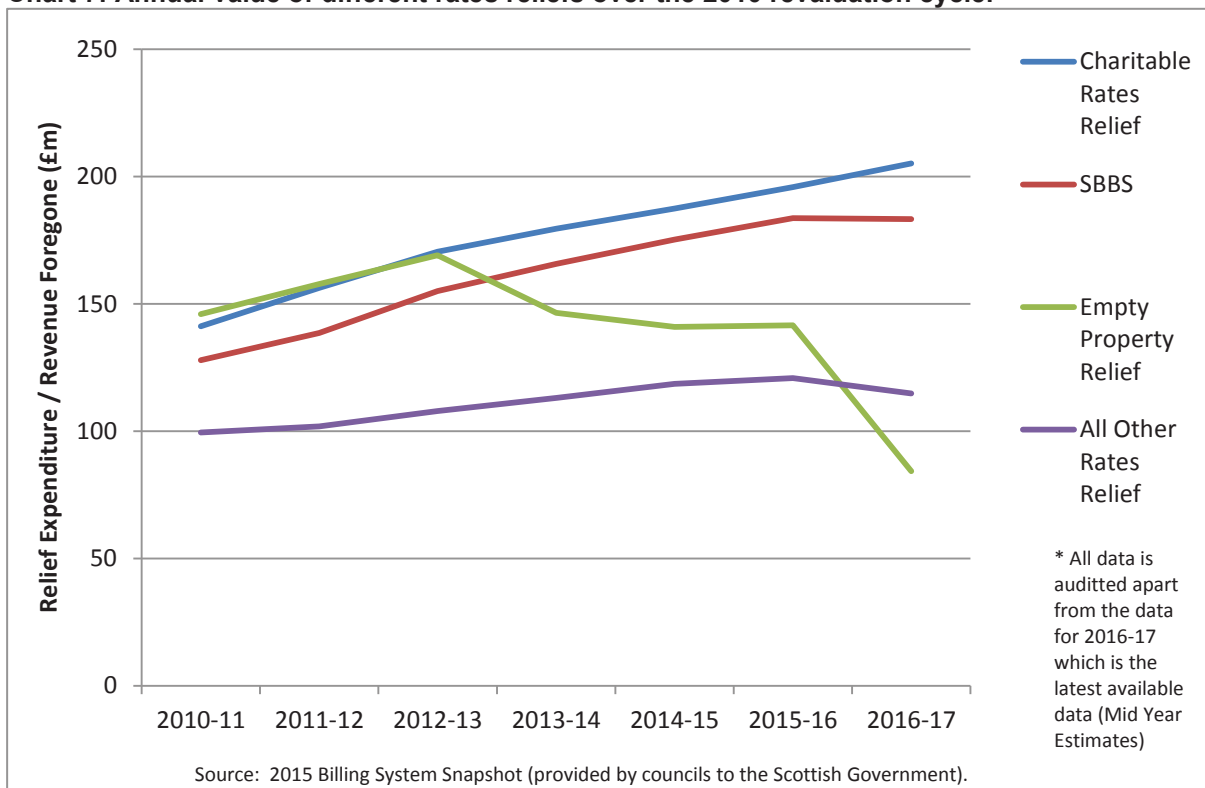
Savings. This will not carry any additional costs but could potentially lead to savings of up to £3 million per annum.

Implementation. This is an administrative measure that can be introduced in the short term and Scottish Government should begin to action this in 2017.

24. Charity relief should be reformed/restricted for a small number of recipients.

4.111 When the annual costs of all rates reliefs are considered, charity relief costs have increased significantly in recent years, as shown in Chart 7 below – which looks at relief expenditure over the current revaluation cycle. Over this period, the amount of charitable relief grew at an annualised rate of over 6%.¹⁰

Chart 7: Annual value of different rates reliefs over the 2010 revaluation cycle.*



¹⁰ In practice, “Other” relief expenditure was affected by the introduction of New Start, Fresh Start, and Enterprise Areas, however the affect these reliefs had on the overall trends was far less impactful.

- 4.112 The reasons behind this trend are uncertain, but as there has been no change to the rules around award of relief, we know that the trend is in part related to avoidance tactics (discussed later) and/ or the creation of ALEOs by councils.
- 4.113 Charity relief which is almost entirely funded by the Scottish Government (it funds at least 95% of the costs) is awarded by councils to ALEOs which the councils themselves have created to deliver services which councils previously provided directly.
- 4.114 ALEOs have charitable status which qualifies them for charity relief.
- 4.115 ALEOs are some of the biggest recipients of charity rates relief in Scotland with councils 'self-awarding' 15-20% of all charitable rates relief to these bodies which they have created. The prevalence of ALEOs within certain councils is also unevenly distributed across Scotland.
- 4.116 If the council itself were still providing a service directly, it would pay rates, but by creating an ALEO rates relief becomes available and the cost of that relief is then met by the Scottish Government. This allows councils to gain additional funding from the Scottish Government outwith the usual funding arrangements, a fact that was acknowledged by councils themselves as one of the primary reasons they put services into ALEO status in the first place. This is tax avoidance and should cease.
- 4.117 The current arrangements have created arguably unfair distinctions between councils - some of whom do not have a large number of ALEOs and will be paying significantly higher rates bills than councils which have already established ALEOs. They also create unfair competition between the public and private sectors. For example, rate-paying private gyms and leisure facilities will compete with ALEO facilities that do not pay rates (or receive a significantly reduced bill). Other ALEO facilities offer cafes, retail outlets, venue hire etc. all of which have been given an unfair advantage compared to private sector businesses offering the same or very similar services. On the grounds of fairness, we believe there should be a 'level playing field' and council ALEOs should no longer be able to abuse the system.

- 4.118 As there would be scope for some of the ALEO charitable relief to switch over to sports relief and reduce the savings generated, we also recommend that eligibility for Sports Club relief for ALEOs should also be removed.
- 4.119 These changes require primary legislation to be implemented in full, but in the interim the local government funding mechanism should be adjusted to recoup the estimated £45 million of ALEO funding. These administrative arrangements should apply from 1 April 2018.
- 4.120 Independent (private) schools that are charities also benefit from reduced or zero rates bills, whereas council (state) schools do not qualify and generally will pay rates. This is unfair and that inequality should end by removing eligibility for charity relief from all independent schools. They will of course still retain charitable status and other benefits will continue to flow to them from that status. And Independent special schools will be eligible for disability rates relief where they qualify for this.
- 4.121 Universities are also charities and able to claim charity relief. The core functions of universities including education and research and development should continue to be eligible for charitable relief to reflect their key role in supporting economic growth through education of the workforce and supporting innovation.
- 4.122 University residential properties, when occupied by students during term time, are not liable for council tax. However, universities may rent out halls of residence or self-catering flats commercially outside of term times. For those periods they compete with nearby hotels and hospitality businesses but without paying rates. Again, for fairness and equity, these commercial elements of the university should be liable for rates where they compete with the private sector. This should also be the case for commercial activities such as renting out venues for conferences and other functions. In cases where a property is multi-use, the relief applied to educational or research and development should be set pro-rata to the number of whole day equivalents per year the property is used for those functions. For example where a property is used for commercial

activities for a quarter of the year, the amount of charity relief awarded should be reduced by the same proportion.

- 4.123 Similar principles should apply when private student accommodation is let outside of term time to compete with local hotels and other accommodation providers to ensure a level playing field. Indeed we consider more general exploration of the taxes paid by student accommodation is merited. For example, consideration should be given to the rules that apply for other taxes, such as Land and Buildings Transaction Tax where different rules apply once six properties are owned by the same individual or entity.
- 4.124 The Group appreciates that the recommendations in this section may be controversial. However, there is precedent elsewhere in the UK. In Northern Ireland, the established position is that certain educational, cultural and public sector bodies are prohibited from receiving charitable relief.
- 4.125 In each case, it will be for the Scottish Government to decide whether to implement the recommendations in this section at once or to adopt a phased approach over possibly a number of years. Clearly, a phased removal of these reliefs would reduce the savings to be made which could not then be diverted to introducing measures which support both public and private sectors equally and have the potential to grow the economy.
- 4.126 For the avoidance of doubt, removal of charitable status for any organisation is outwith the scope of this review and does not form part of this recommendation. All the organisations involved will of course continue to receive wider benefits of charitable status such as gift aid or differential VAT treatment. The vast majority of OSCR registered charities will see no change from this reform.

Savings. Based on the information available to the Review group, we estimate that these measures combined will save at least £50 million per year (of which around £45 million will come from ALEOs and around £5 million from independent schools). For ALEOs this £45 million reduction will no longer receive should be put into the context of the over £10.4 billion councils receive in total funding from the Scottish Government. As university student

accommodation properties are not currently valued for non-domestic purposes, it is not currently possible to estimate the revenue that might be raised from that sector but we assess that it is unlikely to be more than from independent schools.

Implementation. These changes require primary legislation so are longer term options. However for ALEOs the Scottish Government could cut each council budget by the appropriate amount from 1 April 2018 to realise those savings (£45 million) more quickly and allow them to be redistributed to other ratepayers.

25. To focus relief on economically active properties, only properties in active occupation should be entitled.

- 4.127 It was suggested to us that a well-known avoidance tactic to reduce liability when a property is empty is to occupy only a small part of the property for storage to either qualify for another relief or to allow a new period of empty relief to begin after a set period (this occupation may be limited to just one bag of goods donated for charitable purposes or a pallet of stored goods).
- 4.128 With the exception of empty property relief, we therefore recommend a change to stipulate that, to qualify for any relief, it must be demonstrated that over 51% of the area of the property is in active use (not vacant) throughout a year.
- 4.129 The main savings generated by this measure will come from empty properties currently receiving Small Business Bonus Scheme (SBBS) relief – although a significant amount would be generated from Charity relief as well. Recently the Scottish Government has reduced the levels of empty property relief with an aim of encouraging these properties to come back into use. However, currently where a low rateable value property is empty the owner may be entitled to claim 100% SBBS relief, rather than the less generous empty property relief. In that case there is no incentive through the rates system to bring the property back into use.

- 4.130 We believe that rates paid by all empty property should be the same, regardless of whether the property is large or small and the option for a lower rateable value property to claim SBBS should be removed. In addition, there will be some empty properties that were previously occupied by charities who would cease to benefit from charitable relief. A smaller element of savings will come from empty property that was previously occupied by charities, but is now vacant. That change will likely require primary legislation so cannot come into force until 2020-21.
- 4.131 The expansion of Fresh Start relief (recommendation number 5) will increase the incentive to occupy empty property.
- 4.132 This reform will increase fairness and encourage owners of small empty properties to bring these back into use and dis-incentivise certain types of avoidance.

Savings. Savings of £12 million (£7 million from empty properties getting SBBS and £5 million from empty properties getting other relief, including charity relief).

Implementation. The removal of SBBS from empty properties should be able to be carried out with a simple addition to the application form to confirm that the property is in active use and is not vacant. Changes to charity relief entitlement will require primary legislation.

26. To encourage bringing empty property back into economic use, relief should be reformed to restrict relief for listed buildings to a maximum of 2 years and the rates liability for property that has been empty for significant periods should be increased.

- 4.133 Currently listed property receives 100% relief for the entire period it is empty, which is in contrast to non-listed property which receives at most 6 months relief (in the case of industrial property) and 10% thereafter.

4.134 While we believe that empty listed property does merit special treatment we are not of the view that this should be for an indefinite period and recommend that 100% relief for listed properties should last for a period of 2 years, with 10% relief available thereafter. This is summarised in Table 7.

Table 7 - Empty property relief summary.

Current Position				
Type of property	Relief from 0-3 months	Relief from 3-6 months	Relief after 6 months	
Standard property e.g. shops/ office	3 months of 50% relief (i.e. half rates due)	10% (i.e. 90% of bill due)	10 % relief for as long as property is empty (i.e. 90% of bill due)	
Industrial property	100% relief	100%		
Listed	100% relief	100%	100%	
Other*	100% relief	100%	100%	
Recommended Position				
Type of property	Relief from 0-3 months	Relief from 3-24 months	Relief after 2 years	After 5 years
Standard property e.g. shops/ office	No change			Surcharge of 10% (i.e. 110% rates due)
Industrial property				
Listed	100%	100%	10 % relief for as long as property is empty (i.e. 90% of bill due)	
Other*	No change			

* includes low rateable value property, property prohibited from occupation.

4.135 Moreover, where empty property of any type has been empty for a significant period we believe more action is needed to encourage the property back into use or for the owner to consider alternative uses, for example conversion into housing or community use. Where a property has been vacant for over 5 years the rates liability should be increased to encourage the owner to better utilise the property and be liable to pay a supplementary rate of 10% on the applicable poundage at that point in time.

- 4.136 The 2 year period should begin on 1 April 2018, meaning currently empty listed property will have until 1 April 2020 before relief is reduced. All ratepayers responsible for empty property will have until at least 2023 before a surcharge is introduced.
- 4.137 Combined with our recommendation number 5 on fresh start relief expansion, this package provides incentives to both landlords to get both listed and non listed properties back into economic use and new occupiers to occupy these.

Savings. This will lead to increases in income of up to £15 million.

Implementation. This is a medium term measure to allow owners of currently empty listed property 2 years to prepare for the change.

27. Sports Club relief should be reviewed to ensure it supports affordable community-based facilities, rather than members clubs with significant assets which do not require relief.

- 4.138 The tax position with sports facilities in Scotland is very mixed and needs to be looked at in more detail. While we fully support the retention of Sports Club relief for local community sports facilities we do not believe that this relief is supporting only those that the Government intends.
- 4.139 Some examples we came across which we would not have expected to receive relief of this type included two of the most prestigious golf clubs in the country which were awarded over £144,000 and £75,000 worth of relief respectively in 2015 by the council concerned. We do not believe properties of this type are the intended recipient and the Government should look to review the recipients of this relief and reform the relief accordingly, possibly by merging it with the Small Business Bonus Scheme to ensure local community facilities remain supported. It is also worth noting that many smaller sports facilities would be eligible for small business bonus relief and this may be a more appropriate vehicle.

4.140 We believe the costs of this relief (currently accounting for around £10 million to £15 million of revenues foregone) could be reduced by around £3 million per year whilst still retaining relief for those vital community sports facilities who we believe are the intended recipients.

Savings This will save around £3 million per year.

Implementation. This will require primary legislative changes that can be introduced in the longer term.

28. All property should be entered on the valuation roll (except public infrastructure such as roads, bridges, sewers or domestic use) and current exemptions should be replaced by a 100% relief to improve transparency.

4.141 Currently many types of property are exempt from valuation and rating. This means that these properties are not valued, and do not appear on the valuation roll. The financial benefit to those concerned is unknown. The resulting lack of transparency is unfair on other ratepayers.

4.142 Currently the following property types are exempt from inclusion on the valuation roll:-

- a) Domestic dwellings
- b) Foreign military bases
- c) Embassies, Consulates, trade missions
- d) Public roads, bridges
- e) Sewers
- f) Public parks
- g) Agricultural land and buildings
- h) Fish farms/ fishing
- i) Bee keeping
- j) Forestry/ woodlands
- k) Microgeneration plant and machinery – up to 50 KW renewable generation (45 KW for CHP)

- l) Rural ATMs
- m) Offshore premises (including pipelines)

- 4.143 There is no proposal to value exemptions for domestic property (which is valued separately and makes its own contribution to local services through payment of council tax) or for those properties where exemption is part of international treaties (Embassies, foreign military bases). Public infrastructure and facilities such as roads, sewers, bridges and parks should remain exempt as there is limited gain from valuing them.
- 4.144 For fairness and transparency, we recommend that other non-domestic property in Scotland should be added onto the valuation roll. Each property in the previously exempt categories (with a few minor exceptions) should then receive 100% relief, so there is no financial impact on them. This will give a more complete picture of all property in Scotland and the financial benefit that they receive from Government can be quantified and understood by other ratepayers.
- 4.145 In the example of agricultural land, this will also support diversification. Currently any non-agricultural venture taking over an exempt property will have no information available to enable an estimation of the likely rates bill to determine viability of the potential business. Once the property is on the valuation roll, the rateable value will be readily known and so a rates bill will be able to be estimated. The public will also become aware of the tax payer subsidy to the industry.
- 4.146 We should be clear that there is no proposal to tax agricultural land or any other previously exempt property with the exceptions listed below in recommendations 29 and 30.
- 4.147 We appreciate that this represents a significant job for Assessors. Wider powers of information collection in recommendation 13 and exploration of new data sharing agreements with others in the public sector may help in this task - for example Scottish Water may already hold billing information for some of these properties.

Cost. This will carry an additional resource cost for Assessors and it is not possible to quantify the extent of this cost without entering into detailed discussions with the Assessors. This recommendation will carry no financial cost for those sectors currently exempt.

Implementation. This is a long term measure as primary legislation is required to remove the exemption and there is a significant administrative role for the Assessors in identifying and valuing all currently exempt property. It is therefore proposed that this is done in time for the 2025 revaluation.

29. Large scale commercial processing on agricultural land should pay the same level of rates as similar activity elsewhere for fairness.

4.148 Currently, where commercial activity such as food processing or animal feed manufacture takes place this is liable for rates, except when the same activity take place on agricultural land in which case it is exempt. This creates a disparity in the tax paid for manufacturing of similar or identical products, based purely on location of the plant.

4.149 This distinction should be removed so that such commercial activities are liable for rates regardless of the location of the activity.

4.150 Our intention is that only mass commercial processing for consumption off site should be captured where this could reasonably take place elsewhere. For example, we would not expect a dairy milking cows to be captured by this, but we would expect a factory producing processed chicken products to be so. We appreciate that agricultural processing covers a spectrum of activity and recommend that the precise definition of the type of processes captured should be determined in consultation with the agricultural sector and that this should be reviewed after 5 years.

Savings. This will save money by raising a small amount of rates revenue. It will also remove the unfair advantage of those who process food on farmland

compared to those who carry out such processing activity on land that is not farmland. Because agricultural land is currently exempt from non-domestic rates and is not valued, it is neither possible to quantify the number of exempt properties or the cost of the exemption as income forgone. We believe that £2 million is a reasonable and conservative estimate of the potential savings of this measure. For example, assuming 40 such plants in Scotland, each with an average rateable value of £100,000, we assess that this could raise approx £2 million per year.

There will be an additional resource cost for Assessors and it is not possible to quantify the extent of those costs without entering into detailed discussions with the Assessors.

Implementation. This is a long term measure as primary legislation is required to remove the exemption and there is an administrative role for the Assessors in identifying and valuing all currently exempt property.

30. Commercial activity on current exempt parks and Local Authority (council) land vested in recreation should pay the same level of rates as similar activity elsewhere so as to ensure fairness.

4.151 Currently all public parks are exempt from rating and there are no plans to change this, except where commercial activity takes place. As an example, the multiple St Andrews Links courses are exempt from rates because the land is classed as a public park, whereas many other golf courses are rated (although many receive sports club relief, which is dealt with in recommendation 27).

4.152 Similarly, cafes and property on park land in which other commercial activity takes place should be rated. Where there is limited seasonal use this should be reflected in the valuation. Parks themselves though should not be liable for rates.

4.153 A separate exemption exists for land vested by the local authority (council) in recreational facilities, which so far as we can assess exempts only 2 properties

in Scotland (Midlothian ski centre at Hillend and a tennis club in Aberdeen). Those facilities are arguably able to compete unfairly with other leisure properties in Scotland and therefore we also recommend removing these inconsistencies.

Savings. Because this type of property is exempt and is not valued it is neither possible to quantify the number of exempt properties, or the cost of the exemption as income forgone. We believe that £1.5 million is a reasonable and conservative estimate of the potential savings of this measure. For example, assuming that commercial facilities in parks may have an average rateable value of £20,000 and there are 5 such properties in each of the 32 council areas, this could raise around £1.5 million per annum.

There will be an additional resource cost for Assessors and it is not possible to quantify the extent of that cost without entering into detailed discussions with the Assessors.

Implementation. This is a long term measure as primary legislation is required to remove the exemption and there is an administrative roll for the Assessors in identifying and valuing all currently exempt property.

SECTION 5: A FINAL OPTION FOR CONSIDERATION.

5.1: Background.

- 5.1 We were given a clear and unambiguous remit by Scottish Ministers: to support business growth, respond to wider economic conditions and changing marketplaces, and to support long-term growth and investment – while ensuring that our recommendations are revenue neutral.
- 5.2 The final part of our remit (in relation to revenue neutrality) prevented us from making a final recommendation for which there was widespread enthusiasm amongst ratepayers. This section briefly discusses this option – linking increases in poundage to CPI inflation.
- 5.3 In discussing the context around the current non-domestic rate (NDR) system, we explained earlier in this report that one of the primary characteristics of recent Scottish NDR policy has been a desire to match the broad tax rates of the English NDR scheme. Each of the last five Programmes for Government published by the Scottish Government has clearly stated this policy objective – to ensure Scotland is the best place to do business in the UK and to ensure that Scottish businesses have a competitive advantage as a result of the non-domestic rates system.
- 5.4 In our discussions with ratepayers, this was repeatedly highlighted as a benefit of the Scottish system. Ratepayers often made the point that the broadly similar tax structure between England and Scotland allows ratepayers to plan for rates in a consistent manner and means that rates will not affect investment decisions. More broadly, ratepayers thought that the commitment to a competitive non-domestic (business) rates environment was good for business confidence.
- 5.5 In order to achieve this, the Scottish Government maintains a similar NDR structure to that in England. Most notably, Scotland has achieved this by having revaluations at the same time as England and Wales and ensuring that the Scottish poundage rate matches the equivalent rate in England (known as

the multiplier). While not always identical, the relief schemes provided for ratepayers in Scotland and England are also similar.

- 5.6 This is not the case right across the UK. For example, Northern Ireland carried out a revaluation in 2015, and therefore the basis of tax as well as the tax rates in Northern Ireland differ from those in the rest of the UK. The revaluation of non-domestic properties in Wales was aligned with England and Scotland, however the base tax rate (poundage) in Wales is 49.9p in 2017-18, compared to 46.6p in England and Scotland. There is however, no Large Business Supplement in Wales.
- 5.7 We believe that our recommendations will continue to give Scottish businesses a competitive edge, and will incentivise investment. However, we also recognise that the easiest way for ratepayers to assess the competitiveness of the non-domestic rates system in Scotland and England is to look at the headline rates of tax.
- 5.8 This explains the main rationale for the option for consideration below – to ensure that the rates of tax in Scotland and England are the same, and therefore that there is no incentive for investment decisions to favour England as a result of the different non-domestic rate schemes in the two countries.

Box 5.1: The Costs Involved with matching poundage to the equivalent rate in England (as opposed to uprating poundage by the Retail Prices Index (RPI)).

In England, legislation links the maximum possible uprating of its Small Business Multiplier to September RPI of the preceding year. No such legislation exists in Scotland. However, given that Scottish Ministers have chosen to set poundage in order to match tax rates in England since 2007-2008, September RPI has also acted as a cap on inflationary increases in poundage in Scotland too.

For three of the last four years, we note that Scottish Government policy does not appear to be to cap poundage rises at RPI. In both 2014-15 and 2015-16, poundage rises were capped at 2.0% - lower than outturn September RPI would have implied – in order to match the prevailing tax rates in England. Similarly, the Cabinet Secretary for Finance and the Constitution has publically stated that he has foregone a revenue neutral revaluation in 2017-18 - again in order to ensure that poundage matches the equivalent rate in England.

In practice, therefore, the Scottish Government has already foregone significant amounts of revenue to ensure that poundage moves in line with the multiplier in England. Poundage rises were capped in 2014-15 and 2015-16 – reducing the poundage rate by approximately 0.8p compared to if September RPI. Similarly, at the 2017 revaluation, Scotland matched poundage to the multiplier, despite seeing lower overall growth in rateable value. If one were to assume that the net effect of appeals is similar in both countries, this represents a further reduction in poundage equivalent to approximately 1.3p. As such, it is reasonable to conclude that the costs to the Scottish Government of matching the poundage rate in Scotland to the Small Business Multiplier in England over the past four years is equivalent to the revenues associated with a 2.1p rise in poundage which equates to around £120 million per annum.

- 5.9 It should be noted that, if our recommendations are adopted, then Scotland may see its revaluation cycle diverge from England in 2025 – either in terms of the date of the revaluation, the time period between ‘tone date’ and the revaluation, or both. In this scenario, it is likely that the Scottish Government may have to develop a Scottish approach to non-domestic rate that balances competitiveness against other key policy objectives. For example, Box 5.1 (above) looks at the costs of matching poundage to the equivalent rate in England over the past four years.

5.2: Why consideration should be given to linking inflation increases in Poundage to the Consumer Prices Index (CPI).

- 5.10 As discussed above, legislation links the maximum possible uprating of the English Small Business Multiplier to September RPI (Retail Prices Index) of the preceding year, and the Scottish Government has ensured that poundage matches the Small Business Multiplier in England – this has created an impression amongst ratepayers and business groups that poundage in Scotland is linked to September RPI – although it should be noted that the Scottish Government has not set out policy on poundage beyond 2017-18.
- 5.11 One frequent suggestion – coming up in many consultation responses as well as being cited by numerous ratepayer groups was to link increases in poundage to the CPI (Consumer Prices Index) rather than the RPI.
- 5.12 The uprating of poundage means that overall NDR revenues are more or less protected in real terms – as the tax rate grows in line with inflation, and the tax base is largely stable, revenues also grow in line with inflation. This can be seen in the non-domestic rate time series presented in the context section, which shows non-domestic rate revenues as a % of GDP have stayed broadly similar (see Table 6).
- 5.13 Both the CPI and the RPI measure inflation, but the two indexes look at spending by different populations on a different basket of goods – and so they differ. RPI includes housing-costs but these are excluded from CPI – this is the biggest difference in terms of which goods the two indexes measure. There are also computational reasons for the divergence between the two series¹¹. Over the last twenty years, September CPI has tended to be lower than September RPI with only one exception in 2009 – this largely related to lower mortgage interest payments in that year.

¹¹ For an introduction to the key issues, The Economist provided a useful introduction in January 2011 - [link](#). Oxera produced a breakdown of the different components driving the difference between the two measures: (Oxera, "What is the forecast difference between RPI and CPI?", May 2014, [link](#), table 4.2), and the Paul Johnson led review of Inflation Indexes for the ONS provides a comprehensive summary of the differences, together with recommendations on which measure government should use: Paul Johnson (Director of the IFS) led an independent review of inflation measures ([link](#))

- On average, over the past twenty years, inflation measured by September CPI has been 0.8 percentage points lower than when measured by September RPI.
- Over the past twenty calendar years of available data, the CPI index increased by a total of 46 percentage points, compared to an increase of 72 percentage points in the RPI index.

5.14 We would view moving to a more widely accepted measure as a desirable policy goal.

5.15 In the UK Government Budget of March 2016, the Chancellor announced that, from 2020, changes in the tax rate¹² used to determine non-domestic rates bills in England will be linked to CPI inflation, rather than to RPI inflation. This move will take effect from 2020 onwards. If Scotland chose to continue to ensure that the poundage rate matches the tax rate in England, the impacts on the public finances will be substantial. Conversely if Scotland does not follow suit, then a disadvantage may be created for ratepayers in Scotland. Importantly, the impacts of changing the way that poundage is uprated would be both recurring and cumulative – such that the annual impact of the change is likely to grow with each financial year. More specifically:

- Currently the Office of Budget Responsibility (OBR) forecast for 2019 September RPI is 3.1% and for 2019 September CPI is 2.0%.

5.16 Applying the CPI forecast to poundage instead of the RPI forecast to poundage for 2020-21 would equate to a poundage rate that is 0.6p lower than would otherwise be the case. This translates as an non-domestic rate loss of around £30 million to £40 million.

- If implemented, the impacts would be recurring and cumulative – similar to the capping of poundage below RPI in 2013-14 and 2014-15, which permanently reduced non-domestic rate receipts in future years.

¹² Referred to as a multiplier in England.

- The OBR forecasts for September 2020 RPI and September 2020 CPI in 2020-21 match those for 2019-20. As a result, the annual loss in 2021-22 is expected to be roughly £60 million to £80 million, and would continue to grow if this divergence continued.

5.17 Another way to consider the likely costs would be a backward looking scenario. Table 8 compares a scenario showing what would have happened to non-domestic rate income if RPI had been used¹³ to up-rate poundage over the current revaluation period compared to a scenario where CPI was used. This analysis therefore assumes a shared starting point in 2010-11.

- It is anticipated that total annual revenues could have been around £120 million lower in 2016-17 if CPI inflation had been used to uprate poundage as opposed to if RPI inflation had been used to uprate poundage.
- As discussed above, the impact would have been cumulative and recurring – the annual impact grows in each and every year of the analysis.
- The 6 year cumulative impact over 2011-12 to 2016-17 could have been around £400 million.

Table 8 - Simple NDRi projections - capturing effects of using RPI vs CPI to uprate poundage.

Year	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Poundage (actual)	40.7	42.6	45	46.2	47.1	48	48.4
Scenario where poundage is uprated by RPI	40.7	42.6	45.0	46.2	47.7	48.8	49.2
Scenario where poundage is uprated by CPI	40.7	42.0	44.2	45.2	46.4	47.0	47.0
Modelled NDR Income (RPI Scenario, £m)	2075	2231	2373	2439	2512	2591	2697
Modelled NDR Income CPI Scenario, £m)	2075	2200	2331	2387	2444	2498	2581
Annual Difference (£m)	N/A	-31	-42	-52	-67	-94	-116
Cumulative Difference (£m)	N/A	-31	-73	-125	-192	-285	-401

Source: Review Group Analysis, employing simple model of NDR income, using historical (ONS) inflation data and snapshots of the Valuation Roll from prior years.

¹³ In reality, poundage was capped below RPI inflation in both 2013-14 and 2014-15, hence income figures differ from outturn. This “capping” of poundage is forecast to lead to a decline in revenues of roughly £150 million over 2013-14 through 2016-17. As such the difference between using CPI to inform poundage over 2010-11 and 2016-17 and outturn poundage is around £350 million.

5.18 Clearly, and compared to using the RPI, the costs of adopting the CPI or the CPIH¹⁴, as a measure to uprate poundage would be significant. We recognise that the CPI is widely thought of as a better measure of the overall levels of inflation in an economy than RPI is, and as such would support using CPI as the method of uprating poundage, rather than RPI. While we are not experts in inflation indexes, the arguments in favour of using CPI rather than RPI appear well rehearsed¹⁵.

5.19 However, due to the large costs involved in switching from RPI to CPI as a mechanism to uplift poundage, we could not find a “revenue neutral” package of measures that would offset the costs of such a change and not adversely affect particular sectors of the tax base. As such, we are unable to include this in our formal list of recommendations. Nevertheless, we would still urge the Scottish Government to consider moving to this measure as soon as finances permit – especially in light of its stated desire to provide the most competitive business (non-domestic) rates package in the UK. Recognising that there could be legitimate concerns over the affordability of this proposal, we therefore consider it appropriate for this option to be considered in the medium term – and likely alongside changes in England, so as to ensure Scotland retains the sort of competitive non-domestic rate environment discussed above.

¹⁴. CPIH is a relatively new measure of inflation – introduced in 2013. The key difference between CPI and CPIH is that the latter includes a measure of owner occupiers’ housing costs – this will include mortgage payments, but also dwelling insurance, estate agents’ fees and maintenance and/or renovation costs.

¹⁵ Notably, Paul Johnson (Director of the IFS) led an independent review of inflation measures (<https://www.statisticsauthority.gov.uk/news/uk-consumer-price-statistics-a-review/>) which reported in 2015 – recommending that “*The Office for National Statistics (ONS) should move towards making the Consumer Prices Index including owner occupiers’ housing costs (CPIH) its main measure of inflation*”

ANNEX A: OTHER IDEAS CONSIDERED – CHANGING THE BASIS ON WHICH THE TAX IS LEVIED.

A.1: Introduction.

- A.1 As indicated in section 2 of our report, our deliberations ranged widely and included consideration of whether there would be merit in fundamentally changing the basis on which non-domestic rate is currently collected. This section expands a little on some of that wider consideration.
- A.2 The initial impetus for our discussions around this area focused on whether the current basis of non-domestic rates is the fairest and most reasonable. Our conclusion was that rental evidence is a reasonable and fair thing to tax. We believe it is important that property taxation continues to form part of the overall tax mix in Scotland. We did consider other bases for tax, including a mix of rental values and performance measures. However, all have drawbacks and we remain to be convinced that any would be clearly superior to rental values.
- A.3 Discussions with ratepayers themselves also covered this aspect. But we found relatively few proponents in favour of radically overhauling the system – with most suggesting that the current system needed to be refined rather than replaced. Many were particularly concerned that fundamental changes could lead to large one-off shocks in tax liabilities of the sort which are potentially greater than would occur at a revaluation. It is clear that any substantial reform to the tax base would provide such a shock and we do not believe that this is the right time to consider this kind of uncertainty – particularly given the current uncertainty about the economic impact of what emerges from the Brexit process with the European Union.
- A.4 In any case, such consideration would have required substantial, complex and lengthy research and evaluation and, in all the circumstances, we did not consider this could be undertaken within the timetable set for our review.

A.5 The various options we did consider are set out below but, for the reasons above, these options were not considered in same depth as those which underpin our recommendations.

A.2: Land Value Tax.

A.6 A move to Land Value Tax was proposed by a small number of consultation responses as an alternative to non-domestic rates. The Review Group acknowledges that there are some economic arguments in favour of a Land Value Tax, which include:

- A tax on land value may encourage optimal activity (such as investment in a property) that a tax on property values currently does not;
- The supply of land is fixed and cannot be affected by the imposition of a tax;
- A land value tax would better capture the benefits to landowners of public spending (for example, the value of land would increase with improved infrastructure and access to a more educated workforce.)

A.7 In reviewing all the submissions we received, it appeared to us that there was very limited support for this sort of change to the tax base. Land Value Tax was also not one of the proposals that rate payer organisations were in favour of. Furthermore, we recognise that the Commission on Local Tax Reform (which reported in 2015) concluded that gaining a full understanding of the impact of a land value tax would require significant further analysis. Given the resources that would be required to carry out this analysis, we decided not to make this a focus of this Review.

A.8 The likely implications of introducing a Land Value Tax would be large – likely re-distributing tax bills in a pronounced way. We also recognise that, if applied only to the non-domestic tax base, a land value tax might distort the market for domestic properties – making them more or less attractive investments relative to non-domestic properties. And would therefore be likely have to be reviewed jointly with council tax.

A.9 For these reasons we did not consider it would be a good use of our resources fully to investigate the potential for a land value tax in Scotland. However we support the recommendation of the Commission on Local Tax Reform that

more work should be done to assess land values, so that the debate over land value tax can be better informed.

A.3: Other bases of tax.

- A.10 We considered various bases of tax other than land and property – most notably a tax based on turnover/sales or profit. This was proposed in a number of submissions made to us by ratepayers. The arguments in favour of taxing these elements instead of property include that they would better reflect “ability to pay” and that they would better reflect changing economic circumstances, such as the fast expanding digital economy.
- A.11 We believe that some form of land or property based tax is an essential part of a balanced tax framework – and not taxing land or property at all would be a mistake.
- A.12 We also considered whether there might be merit in a tax that combined property values and a measure of ability to pay such as profit or turnover. In principle, such a combination would still ensure that property taxes remained an important part of a balanced tax system, while also allowing for a better link between tax liability and the ability to pay. It could also arguably serve to alleviate ratepayer concerns that a revaluation would result in unaffordable bill increases. We could therefore foresee a model along these lines that would help to “future proof” non-domestic rates revenues by ensuring that rates capture elements of the digital economy that are competing with traditional bricks and mortar industries.
- A.13 While this sort of approach could have some merit for some sectors, it could not be applied to the tax base as a whole. For example, many public and third sector rate payers do not deliver profit and turnover. And those in support of a method that better assessed “ability to pay” did not provide a consensus view on what might be the best option – whether it should be based on turnover, profits, or even footfall - and on how these terms should be defined. Furthermore, for many of the smallest ratepayers, the cost of establishing the information to undertake an analysis of the potential impact would be disproportionate to the benefits that could be secured.

- A.14 As with a land value tax, it is not clear whether revenue neutrality could easily be achieved by switching to this sort of system, and there remains the risk that a change along these lines would lead to significant shocks to individual liabilities.
- A.15 There is no guarantee that a tax based on these measures could be revenue neutral to Government over an economic cycle. For example, it may imply higher taxation in times of plenty to allow revenues to be reduced when there is a downturn in the economy.
- A.16 Finally, any reform which fundamentally shifts the basis of tax from property and/or land to another tax base would need to be made with reference to an assessment of the overall tax mix in Scotland. That would require, for example, consideration of the interactions with other taxes such as Corporation Tax and VAT and to what extent the overall package of taxes was “fair”. Such consideration is beyond the terms of our remit.

A.4: Taxing capital values instead of rental values.

- A.17 Although capital values form the basis of council tax liabilities, we found relatively low support for a change along these lines for non-domestic rates.
- A.18 Rental values are of course linked closely with capital values – in simplified terms rental values can be determined by assessing the capital value of the property and multiplying by the yield (or rate of return that an investor can expect to make from the property). Yields make up one element of the return that a property investor receives from a property, with an increase in the properties capital values making up the second element of this return. Other factors and costs, upkeep and upgrades will also affect returns.
- A.19 We are of the opinion that rental values are more meaningful for the ratepayer for a simple reason: rental values are relevant for ratepayers irrespective of whether they rent or own the property that they are occupying. Owner occupiers typically have the opportunity to rent out their property and benefit from rental income, however tenants typically do not benefit from capital values rising. Furthermore, shifting the basis of tax from rental to capital values would likely bring about the sort of large one off shock to tax liabilities that ratepayers have stressed to us they want to avoid.

ANNEX B: OTHER IDEAS CONSIDERED – OPTIONS FOR CHANGING THE WAY IN WHICH REVALUATION WORKS.

- B.1 Many stakeholder groups raised concerns with us about the 2017 revaluation and the significant disruption it caused ratepayers in certain areas and sectors. There has also been extensive media coverage of instances where bills increased significantly as a result of the 2017 revaluation although we note very little coverage of instances where bills reduced significantly. Of course, any revaluation of non-domestic rates will result in “winners and losers” – and it is typical (and understandable) that those who “lose” as a result of the changes complain loudly, while “winners” are typically far quieter. Such changes were more marked in the 2017 revaluation partly because of the extended gap following the previous 2010 revaluation.
- B.2 While the outcome of the 2017 revaluation was outwith the scope of our remit, we did note that the stakeholders we consulted often sought to reduce the uncertainty that is inherent within a revaluation – or to change the balance of risk between Government and ratepayers.
- B.3 Our recommendations set out a clear plan to try and minimise the disruption that revaluations will cause for ratepayers. Shortening the revaluation period to 3 years, and reducing the time between the ‘tone date’ and the revaluation itself to one year, should ensure that changes in revaluation are less volatile.
- B.4 Suggestions and ideas were also put to us about changing the way that revaluation works. This section briefly sets out the main ideas that were discussed:

B.1: Annual valuations - with consideration given to a fixed rate of tax.

- B.5 Typically, revaluations in Scotland have occurred every 5 years, with the most recent revaluation cycle lasting 7 years. Revaluations are designed to be revenue neutral in terms of the overall amount of tax they raise – the purpose of the revaluation is to redistribute the existing tax burden rather than to reduce or increase the overall size of the tax burden¹⁶.
- B.6 Large changes in bills at revaluation occur where the change in valuation for one property varies dramatically from the changes seen across the tax base as a whole. For example, where valuations for some sectors show values increasing dramatically more than the average change seen at revaluation, that sector will see bill rises. The reverse is also true. The more extreme this divergence, the larger the change in bills that will be seen by the properties affected.
- B.7 Reducing the amount of time between revaluations should reduce the likelihood of large bill changes at revaluation. Over a shorter time period, divergences in valuations between one sector or area and the tax base as a whole should be smaller than they would be over a longer time period. Even where a long term divergence in valuations is likely, shorter revaluation periods will allow bills to rise more gradually, rather than for large one off changes to occur. Valuations that are vulnerable to short term shocks may still see large changes in bill, but the frequency of these changes should be lower with a shorter revaluation period.
- B.8 More frequent revaluations may also enable more certainty over the rate of tax that ratepayers can expect to pay.

¹⁶ As discussed earlier, the setting of the small business multiplier in England is determined in Legislation (<http://www.legislation.gov.uk/ukpga/1988/41/schedule/7>). In practice this does not mean that revenues will be the same before and after a revaluation. Revenues will move in line with inflation, any buoyancy in the tax base, and the profile of revenues will be affected by the appeals process.

- B.9 A number of consultation responses mentioned that non-domestic rate could be made to resemble income tax, or introduce some of the common features of income tax. Key features highlighted in these submissions are that other taxes such as income tax do not typically see their rates change each and every year and that they are pro-cyclical – meaning that typically, when the economy is doing well, government asks taxpayers to pay more, as the tax base (i.e. income, sales, profit etc.) is growing. On the other hand, when the economy is doing less well and the tax base is shrinking, tax liabilities will reduce. This relies on frequent, measurable changes in the tax base, and a relatively stable tax base.
- B.10 Non-domestic rates has typically operated differently – relatively infrequent changes to the value of the tax base (via revaluations) and frequent changes to the rate of tax (poundage).
- B.11 Internationally there is wide variation in the period of time between revaluations for property taxation – with some countries carrying out revaluations more frequently than Scotland. For example, in both Iceland and the Netherlands properties are revalued on an annual basis, with a “rolling revaluation” implemented whereby reappraisals are staggered over a 2 year period in Denmark¹⁷.
- B.12 It would be feasible in principle to achieve annual revaluations, although we recognise that this would require a significant improvement in data availability and some reform of the way that property values are assessed. However, we can envisage a time in the future when annual revaluations may become the norm for Scotland too – and if this were the case, then it would offer the opportunity to structure non-domestic rates in a different way – for example to make it similar to income tax – characterised by relatively stable tax rates, and a relatively fluid tax base.

¹⁷ Valuation and Assessment of Immovable Property, Apr 2014, OECD, ([link](#))

- B.13 Under a scenario where annual valuations are achieved, valuations themselves can change from one year to the next, and so the rationale for an inflationary increase in the tax rate is less clear. For example, Government could leave the tax rate fixed, and let revenues vary with the value of the tax base. A pro-cyclical tax arrangement would – by definition – have non-zero revenue implications – and so assuring that any changes along these lines achieved revenue neutrality would be very difficult. It should be noted that government could also continue to pursue “revenue neutral revaluation” from one year to the next, or pursue other policy goals.
- B.14 We are not convinced that changes in rateable value from one year to the next would be significant enough to justify annual revaluations. In the first instance, moving to 3 year revaluations (see recommendation 3) should reduce the volatility in bill changes at revaluation. Consideration of annual revaluations should therefore only be given if these problems persist.

B.2: Constraining the changes that can happen at revaluation – transitional relief.

- B.15 There is an established method of helping to provide ratepayers with a degree of certainty at revaluation: “Transitional Relief”. For example, the UK Government is required by law to implement Transitional Relief schemes alongside revaluations. These schemes ensure that those with large bill increases will not face their full bill increases immediately at revaluation. Instead, bill rises will be capped during the revaluation period such that a ratepayer with a large increase in their rates liability will experience a gradual transition toward their full bill.
- B.16 A major drawback of Transitional Relief is that it costs a significant amount of money to limit bill increases. Typically, these schemes are funded by limiting bill decreases. In the same way that a ratepayer with a large bill increase will not have to face the full effects of that bill increase at revaluation, properties that would see a large reduction in their bill will have this reduction limited - the resulting surplus is used to fund the cap on bill increases, creating a revenue neutral scheme.
- B.17 As such, Transitional Relief can place a significant burden on parts of the tax base that may be experiencing difficulties – reflected by their lower valuations. As a result, there is a risk that Transitional Relief imposes an additional tax burden on those ratepayers with the least ability to pay. There are other potential options for funding transitional relief that don’t target individual ratepayers who would see their bills go down otherwise – for example, an across the board premium on poundage would treat everyone equally, but would have implications for the perceived “competitiveness” of non-domestic rates in Scotland.
- B.18 In order to design a revenue neutral Transitional Relief scheme, the characteristics of a revaluation need to be known in advance. Information such as how many outliers there are, what the overall levels of growth are in the tax base, and what the distribution of bill rises and drops in bills is.

B.19 The Scottish Government decided not to implement a typical Transitional Relief scheme in Scotland following the 2017 revaluation. Instead it provided relief to properties in specific sectors that were seeing bill rises, and forwent capping bill decreases to fund this. As such, unlike a typical transitional relief scheme, this one is forecast to cost money. Scottish Government analysis suggests that this will cost the public purse as much as £45 million in 2017-18.

B.20 Table B1 (below) looks at the likely winners from a typical transitional relief scheme – properties with an increase in gross bills - at the 2017 revaluation:

Table B1 - Likely winners from a transitional relief scheme at the 2017 revaluation

	% of Tax base (in terms of pre-relief bills)	No of properties with a 25%+ increase in (pre-relief) bills	Total value of 25%+ increase in (pre-relief) bills	
			£m	% of Scotland total
Likely TR Winners - by Sector				
Designated Utilities	12%	<20	76	43%
Hotels and Pubs	6%	5,000	23	13%
Likely TR Winners - by RV Band				
£1 to £18,000*	14%	46,600	44	18%
Likely TR Winners - by Council				
Aberdeen City and Shire	12%	7,800	19	11%
Scotland (as a whole)				
All Scotland	100%	53,500	179	100%

Source: Review Group Analysis of Valuation Roll Data.

* groups will have a degree of overlap. For example, there are both hotels and pubs in Aberdeen that will be double counted via this table.

B.21 Of the £179 million increase in (pre-relief) bills over 25%, almost half is accounted for by less than 20 entries on the roll classed as “designated utilities”¹⁸. It is clear that in addition to these large utility companies, hotels and pubs would also likely have seen significant bill reductions through a simple transitional relief scheme. Transitional Relief presents a real challenge in funding such schemes.

¹⁸ Legislation provides that certain utilities are valued at a national (Scotland) level by designated assessors. These ‘designated utilities’ are typically large utility companies whose property is valued on a nationwide basis.

Table B2 - Likely losers from transitional relief

	% of Tax base (in terms of pre-relief bills)	No of properties with a 10%+ decrease in (pre-relief) bills	Total value of 10%+ decrease in (pre-relief) bills	
			£m	% of Scotland total
Likely TR Losers - by Sector				
Shops	23%	10,800	60	47%
Offices	12%	10,500	28	22%
Likely TR Losers - by RV Band				
£51,001 to £250,000	26%	5,100	50	39%
Likely TR Losers - by Council				
Edinburgh and Glasgow	25%	9,800	41	32%
North and South Lanarkshire	8%	5,400	18	14%
Scotland (as a whole)				
All Scotland	100%	38,200	127	100%

Source: Review Group Analysis of Valuation Roll Data.

* groups will have a degree of overlap. For example, there are a significant number of properties with an RV of between £51,001 and £250,000 in Edinburgh and Glasgow.

B.22 The characteristics of the expected “losers” of such a scheme – those properties with decreases in their bills – are described in Table A2 (above). The likely funders of a typical transitional relief scheme would have been drawn from the retail and office sectors, from medium sized properties in rateable value terms and from Edinburgh and Glasgow and North and South Lanarkshire.

B.23 While the analysis above indicates that properties with smaller rateable values would benefit from Transitional Relief, this might not necessarily be the case. Many smaller properties already benefit from the Small Business Bonus Scheme, which reduces or eliminates bills for a large number of properties.

B.24 This illustrates another drawback of Transitional Relief schemes – they are very complex, and ensuring that they are revenue neutral is challenging. For example, statistics on schemes run in England in both 2005 and 2010 show

that, in total, these schemes have “lost” around £1 billion over the course of their respective revaluation cycles¹⁹. This is due to a variety of reasons, including the interaction with other reliefs discussed above.

- B.25 Due to this complexity, Transitional Relief schemes typically require a significant amount of rates knowledge to understand.
- B.26 It is clear that there are benefits to transitional relief schemes – and the reassurance that they can provide to ratepayers that any large shocks to their bills will be phased in rather than being imposed suddenly is significant. On the other hand, these schemes are complex, hard to understand and involve significant costs – both for government in terms of unexpected deficits on these schemes and for those ratepayers who end up funding the schemes by forgoing decreases in their bill. On balance, therefore, we consider it appropriate to continue with a situation where the government of the day can review the both the characteristics of a revaluation, and the distribution of winners and losers at a revaluation, before judging whether or not to implement transitional relief, based on the merits of any schemes proposed.

¹⁹ For a discussion of the revenue costs of past Transitional Relief schemes, see the policy costing associated with the 2016 UK Government Autumn Statements, contained within para B.5 and Table B.1:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571402/Policy_Costing_s_AS_2016_web_final.pdf

B.3: Constraining the changes that can happen at revaluation – a “cap and floor” scheme for rateable value changes.

- B.27 Another way of constraining changes at revaluation would be to place a cap which limits the maximum amount a rateable value can increase (and possibly a floor which limits the maximum amount a rateable value can decrease) on the amount of change in valuations at a revaluation. The proposal would involve setting an upward and downward limit on the amount that rateable values (and therefore bills) could increase by at revaluation. In doing so, this could help provide certainty for ratepayers ahead of revaluation.
- B.28 The key difference with Transitional Relief is that a cap and floor scheme could provide longer term certainty for ratepayers. However, this would necessarily involve re-baselining subsequent revaluations. Unlike in a Transitional Relief scheme where a property can transition to its correct value/bill over time, the constrained value/bill for the property would inform the cap and the floor for future revaluations. As such, where the valuation of a property is showing consistently strong growth (or a consistent decline), bills would not depend on the current valuation of that property, but on the original valuation, and the limits of the cap and floor scheme.
- B.29 In order to provide a significant level of certainty for ratepayers, a cap and floor scheme would likely need to place quite a restrictive cap on how much valuations could change at a revaluation.
- B.30 A revaluation re-distributes tax liability from those properties that do not see a strong increase in valuations to those whose valuation increased by a greater amount. If a cap and floor scheme limited valuations to a band of + or – 50%, this could still lead to large changes at bills with revaluation. Table B3 looks at maximum possible bill changes for properties affected by a cap and floor given other changes seen in the tax base:

Table B3: Maximum possible bill rises for a ratepayer affected by cap and floor scheme

Change Seen Across Wider Tax Base (after effect of cap and floor)	-50%	-25%	0%	25%	50%
Max Change in Bill for individual property affected by cap (of +50%)	150%	67%	25%	0%	-17%
Max Change in Bill for individual property affected by floor (of -50%)	0%	-33%	-50%	-60%	-67%

Source: Review Group Modelling.

B.31 In practice, it may be easier to cap valuations after the fact – taking account of the average changes seen, and the distribution of these changes. This idea is more in line with Transitional Relief (discussed above). In the absence of this arrangement, a cap and floor scheme would likely have a significant impact on revenues. For example, Table B4 looks at the distribution of RV changes at the 2017 revaluation and likely implications for any cap and floor scheme:

Table B4 - Analysis of rateable value changes at 2017 revaluation

Rateable value Change	No of Properties*	Total (2017) RV	RV That would be affected by a RV Change Cap / floor**	
			(+/-) 25% Floor	(+/-) 50% Cap
reduction of 50% or more	3,000	£30m	£9m	£31m
reduction of between 25% and 50%	10,000	£290m		£43m
reduction of less than 25%	42,000	£1,780m		
no change	28,000	£400m		
increase of less than 25%	71,000	£2,540m		
increase of between 25% and 50%	34,000	£1,100m		£86m
increase of 50% or more	29,000	£820m	£227m	£326m

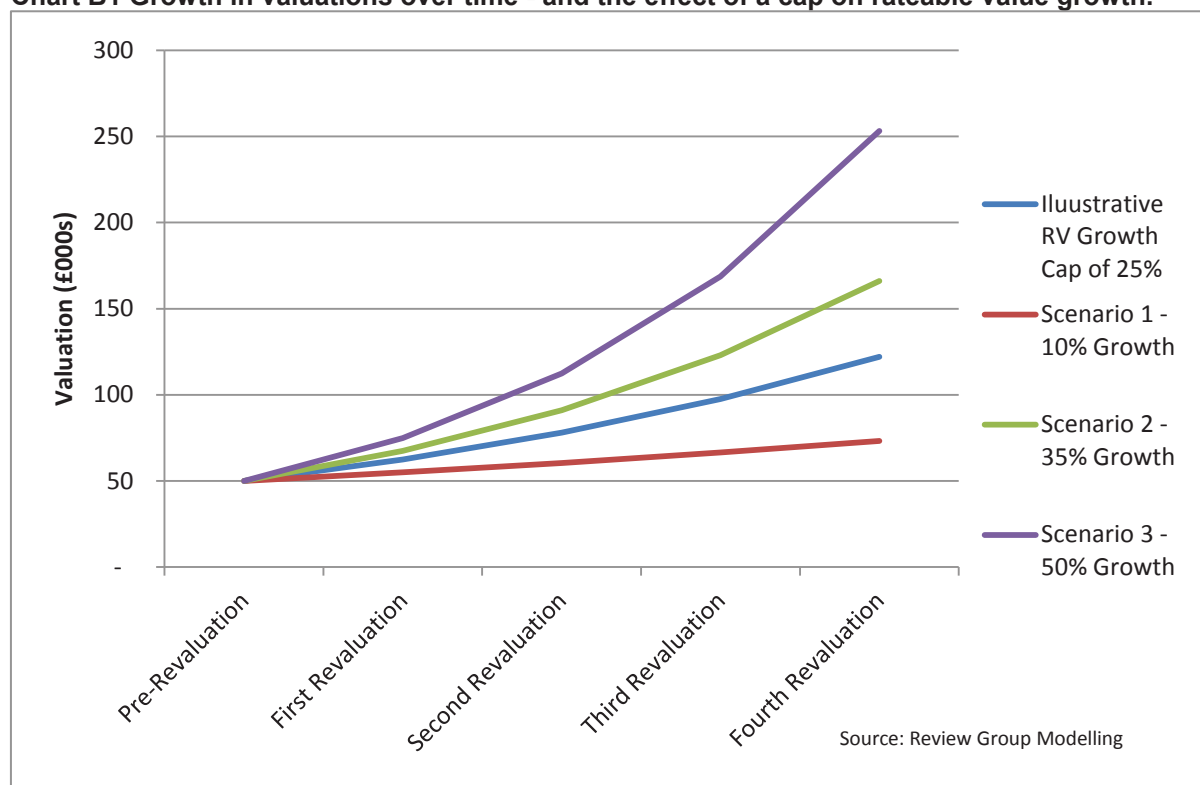
Source: Valuation Roll (comparison of snapshots before/after April 2017).

* Properties / RV doesn't add to published VR totals as a number of properties can't be matched.

** Costs of this sort of cap and floor mechanism would clearly be dependent on a number of other features - notably whatever constraint on the tax rate was introduced.

- B.32 More properties saw a rateable value increase at revaluation than a rateable value decrease, and significantly more rateable value would have been caught by a cap than by a floor. Even a relatively low floor (-25%) would not have funded a relatively high cap (+50%). Assuming no other changes from draft budget policies for 2017-18, as an example a cap constraining RV changes of more than 50% would have cost over £80 million per annum, while a scheme aimed at capping RV changes at no more than 25% would have cost over around £130 million per annum.
- B.33 The cost of similar schemes at previous revaluations would have likely been substantially higher – as a result of rateable value growth in general being substantially higher (e.g. average rateable value growth of 20%+ at the 2010 revaluation would have meant a much larger proportion of the tax base being captured by the “cap”, and less properties being captured by the “floor”).
- B.34 A second issue with this sort of proposal would be that it risks divorcing tax bills from up to date valuations in a scenario where the rental market for a particular sector or area significantly over or underperforms relative to the tax base as a whole. Chart B1 looks at how rateable value could differ from up to date valuations assuming different levels of growth in valuation.

Chart B1 Growth in valuations over time - and the effect of a cap on rateable value growth.



B.35 For example, If a property were to see steady growth in rental value of 50% each revaluation period, a 25% cap would seem moderate in the first revaluation – the “error” would be just £25 for every £125 of rateable value – 20%. However, by the fourth revaluation, the “error” introduced by this constraint would be over 100% of the value that is ascribed to the property. This can be seen in Chart B1 – where the purple line grows dramatically faster than the blue line.

B.36 While this suggestion would provide long term certainty, it would come at a large cost. The revenue foregone at revaluation would be significant, and the proposal would damage the transparency and accountability of the tax system if long term divergences between tax liability and rental values were created. While ratepayers who benefit from the “Cap” element of a cap and floor scheme would be likely to be content with the proposals, it would be more difficult to justify higher tax bills to those ratepayers affected by the “Floor” element. As such, while we are attracted to a simple solution to large bill changes at revaluation, we recognise that a cap and floor scheme would be too blunt a policy tool to achieve this.

B.4: Less frequent revaluations – or sale/occupier based valuations.

- B.37 One suggestion that was brought up more than once – but not widely supported – was to have less frequent revaluations for non-domestic rates in order to provide rate payers with more stability. In principle, this would be akin to the council tax in Scotland which has not been revalued since it was introduced in 1992 and where revaluation to take account of any expansion or modernisation in a property only takes place on the sale of that property.
- B.38 The Review Group support neither less frequent revaluations nor the suspension of revaluations – and nor did any property professionals we spoke to, although a minority of ratepayers did. Although we do accept that less frequent revaluations may provide greater levels of certainty for property owners it would mean that tax bills became more and more divorced from property values and as new industries emerge accurate valuations may become harder to accurately compile. Furthermore, the value assigned to any new builds, extensions etc. would have a tone date that would become increasingly less relevant, the longer the time period between revaluations.
- B.39 Finally, if the tax base becomes fairly static at a historic point in time, the poundage rate would have to rise year on year to raise the same amount of revenue. This would mean that businesses in Scotland would eventually pay a substantially higher tax rate than counterparts in England and, while the reasons for doing so are that average rateable values would be lower, many (particularly those looking at new investment) could simply be dissuaded from doing so by the headline tax rate.
- B.40 A related suggestion – also made relatively infrequently – was that properties would only be revalued when there was a discrete reason to revalue, such as a property sale, change of occupier or physical change to a property. The Review Group understand how this could be attractive to some ratepayers – providing greater certainty about future rates liabilities for ratepayers at the point when decisions are made over whether to occupy/build etc. a new premises. However, the Review Group considers

that the drawbacks of this sort of approach would be severe for other ratepayers. Many properties are not frequently subject to these sorts of changes, and therefore ending regular revaluations would mean that their tax bill would be divorced from up to date property values – much like a “no revaluation” scenario outlined above. Furthermore, this sort of scheme would distort investment and occupancy decisions. Where a rates liability is deemed to be good value, incentives to invest or change the occupier of a property would be reduced. Conversely, where a rates liability is deemed to be too high, there would be an incentive for ratepayers to move on from a property – both to get a better deal elsewhere, and to increase the rental/capital value of the property by reducing the rates liability of the existing site.

- B.41 Overall, the Review Group therefore did not see merit in reducing the frequency with which properties are revalued in order to provide greater levels of certainty for ratepayers.

ANNEX C: OTHER IDEAS CONSIDERED – OTHER CHANGES TO THE OPERATION OF NON-DOMESTIC RATES.

C.1: Digital / future proofing.

- C.1 While we have not recommended changing the basis on which non-domestic rates are levied, we do acknowledge that any tax which is based on rental values will not capture the whole economy.
- C.2 We are all aware that consumer habits are changing and many businesses now offer a mix of online and physical services. Many are based only online and for those a property tax is neither efficient nor appropriate and we were bound within our remit to look only at the rating system.
- C.3 Some stakeholders suggested that as the online trend increases the need for physical property may decline and so the overall tax base upon which rates are levied reduces, meaning the burden of taxation is paid by an ever decreasing pool (this assumes that revenues are protected in real terms). While we found no evidence that there are a decreasing number of properties on the valuation roll, they did not perceive this as sustainable over the longer term.
- C.4 Non-domestic rates policy must continue to respond to those sectors of the economy that pay large amounts of rates bills. For retail in particular, this means that future policy should consider elements of the digital economy that are not as highly dependent on property in order to sell goods and services, such as online only retailers.
- C.5 We are of the opinion that adapting non-domestic rates as a tool to ensure that the digital economy makes a fair contribution to local services would be inefficient. 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. For example taxing highly mobile businesses in Scotland may create a disadvantage compared to elsewhere

in the UK or other parts of the world and the businesses may simply relocate elsewhere, resulting in zero gain. In considering different bases for tax (see annex A), we did consider elements that might bring more of the digital economy into paying rates, however the drawbacks of these approaches were considerable, and it is unclear if they would fully address this issue.

- C.6 We note that a separate Scottish Government group on the collaborative economy is taking forward work in this area and may look at taxation as part of its remit, however ensuring the digital economy pays its fair share of taxes, including for local services is a very complex issue.
- C.7 We therefore urge the Scottish Government to think widely about future proofing all forms of taxation in its taxation policy development, especially with regard to the digital economy. While this is a worldwide issue, the Scottish Government has an opportunity to lead in this field and may wish to commission external work around this broad issue to look at how the digital economy should be appropriately taxed – and how these businesses can contribute towards local services.
- C.8 Over time, and as part of the tax mixture, the Scottish Government should develop a transparent way to ensure that the burden of rates is reduced, as the tax contributions made by the digital economy increase. This will avoid a scenario whereby the current rates burden paid by bricks and mortar businesses and service providers (in particular retail) will be divided amongst an increasingly small tax base as more activity moves online.

C.2: Revaluations before 2022.

- C.9 We have recommended more frequent revaluations and a shorter time period between the ‘tone date’ of a revaluation and the revaluation itself (recommendation 2). In an ideal world we would have liked this to be implemented as soon as practicable – with the first revaluation occurring ideally in 2020. However, in discussion with practitioners, we realise this would not be feasible. This is because we feel a number of our other reforms need to take place ahead of more frequent revaluations. These include the movement of appeals system into Tribunal Scotland and the opportunity for the vast majority of all appeals against 2017 revaluation to be settled, new information gathering powers to be created to enable valuations to be better informed and less likely to be appealed and time to allow the various administrative and cultural changes to be introduced.
- C.10 This will mean that valuations in Scotland and England will likely be aligned until at least 2025. As such, if the Scottish Government chooses to continue to pursue a policy of matching key English commitments on rates, this will be easy to achieve over the medium term. If revaluation cycles in the two countries move out of line with one another, at this point it will be harder transparently to pursue this policy, and a distinct Scottish approach may be required.

C.3: Alternative valuation methodology for hospitality properties.

- C.11 As highlighted in the Scottish Government's revaluation report²⁰, outside of the "designated utilities", hotels saw the largest increase in rateable values of any sector in Scotland at the 2017 revaluation. The current method that Scottish Assessors employ to value hotels, pubs and restaurants²¹ relies on obtaining turnover information in the first instance. The turnover is then used to inform the valuation – with ratios used to convert turnover information into imputed rental values.
- C.12 The hospitality sector (accommodation, pubs and restaurants) made a particular case to us that their method of valuation was flawed. It is clear that any valuation reform would have to apply equally to all hospitality properties for fairness.
- C.13 However, a separate submission made to us following a meeting with hospitality interests and rating professionals outwith the formal review meetings failed to identify any alternative method of valuation that would be acceptable to all in the sector.
- C.14 This was disappointing, but we hope that several of the measures in this report when combined (including more frequent revaluations, better source data to ensure valuations are correct, a requirement for the Assessors formally to consult on practice notes etc.) will go some way to alleviating the concerns of the sector. Additionally we listened to those in the sector who argued for a level playing field with those who don't pay rates and we will go some way to achieving this by recommending that rates are paid by universities and others who let out student accommodation outside of term times pay rates and by ALEOs who offer competing services such as leisure facilities, function and meeting rooms.

²⁰ <http://www.gov.scot/Publications/2017/06/8428>

²¹ The methodology is outline by the SAA in a "practice note" which describes the key elements of valuing hotels and accommodation subjects: https://www.saa.gov.uk/wp-content/uploads/2017/04/Hotels-Accommodation-Subjects_R2017_CPC20.pdf

C.4: Limiting small business bonus scheme (SBBS) eligibility for the most profitable organisations.

- C.15 We have recommended both a review of the Small Business Bonus Scheme (recommendation 7), and some restriction of the Small Business Bonus Scheme for specific types of property and to reduce abuse of the scheme (recommendations 25 and 22 respectively).
- C.16 We also considered restricting SBBS eligibility for high value organisations. An example might be a business that is focussed only or mainly on online sales, or a high value activity that does not require a large floors pace (for example a successful High Street legal firm or jeweller). We are inclined to believe that the savings available to such organisations under the SBBS are considerably less significant than they would be to many emerging or struggling small businesses. We understand that the SBBS is aimed largely to help sustain small and emerging businesses rather than provide an additional bonus to organisations that are already highly profitable and, in that case, it is reasonable to ask whether any savings might be spent helping better target support to small businesses.
- C.17 If for example, the 1% of recipients with the highest levels of profit or turnover had their eligibility removed, the maximum savings associated with such a policy would be £7 million. In reality, savings would likely be far less. We decided against putting this recommendation forward on the basis that it would require imposing a significant administrative burden on the tax base in terms of reporting procedures. To assess which recipients of the scheme had the largest turnover or profit would require assessing these factors for the group as a whole, and then looking at whether or not there were a significant number of large value businesses in receipt of relief under the scheme. This seems disproportionate to the savings that could be made. Instead we would like to see a review of the Scheme containing a breakdown of who receives relief in the first instance, and how it can be best targeted to support investment, employment and growth in the second instance.

C.5: Devolution of non-domestic rate policy to councils.

- C.18 As discussed in our other options for government to consider, one of the defining features of Scottish Government policy on non-domestic rates has been to ensure a high degree of consistency with policy in England. It is clear that many ratepayers value this consistency and our recommendations reflect this. One way in which such consistency would be lost would be by allowing each council in Scotland to set a local poundage rate for its area.
- C.19 However, in our recommendation number 6 we suggest some potential additional powers for councils through a small number of pilot schemes. If these prove to be successful, we would anticipate these powers being eventually rolled out across Scotland.
- C.20 The argument in favour of consistency for ratepayers across Scotland is based around efficiency – ease of administration, payment, and ensuring that rates don't affect investment decisions between different areas. These concepts are very important for larger ratepayers with multiple properties and the potential to move operations around, whether in Scotland or in the UK. For smaller ratepayers, who are less likely to face a large number of different systems, the argument against localisation is less strong. At the moment the Small Business Bonus Scheme excludes any ratepayer with properties with a combined rateable value of £35,000, and so it is far less likely that recipients of relief under the Small Business Bonus Scheme would own properties in a large number of areas. One potential difficulty that was brought to our attention with the Small Business Bonus Scheme is that, because it is based on rateable value thresholds and not the size of the organisation or the floor space of the building involved, the relief covers a much larger proportion of rate payers in rural areas than it does in city centres. Even within council areas, there will be a wide variation in the sorts of properties that qualify for the Small Business Bonus Scheme. As such, a degree of discretion at council level might allow the scheme to better target small businesses.

C.21 For these reasons, it would be worth considering as part of an independent review of the Small Business Bonus Scheme whether or not councils should have some autonomy over the design of the scheme in their communities. We therefore note that as part of recommendation number 7 (an evaluation of SBBS), consideration should be given to devolution of the design of SBBS.

C.6: Rates retention for councils.

- C.22 At the moment, notwithstanding views held in some quarters, councils in Scotland retain all of the income that they raise from non-domestic rates. However, a long term increase in non-domestic rates income would not necessarily lead to an increase in the budget of a particular council because rates income only forms part (see discussion around chart 4 in para 3.42) of the overall funding of councils. The sum of funds made available to councils is assessed on a needs basis. Scottish Government grants to councils make up the bulk of the income that councils receive.
- C.23 Furthermore, these grants take account of non-domestic rates income (NDRi) – all things being equal, an area with higher non-domestic rates income will receive a smaller grant, and vice versa. As such, it can be argued that councils have relatively little incentive to grow the tax base in their area.
- C.24 In England, councils currently retain 50% of non-domestic rates revenues generated within those areas, and 50% are redistributed via central government. This is different from the needs basis funding discussed above – an area that sees strong growth in its tax base would see its budget increase faster (or decrease slower) than an area that sees weak growth in its tax base. For this reason, there are a series of top ups and tariffs that are designed to ensure that there is a “safety net” for councils that see a large decrease in revenues²². The implementation of 100% rates retention is underway in England, which will extend this framework further.
- C.25 In Scotland, the Business Rates Incentivisation Scheme does provide some incentives for councils to grow the tax base, and this scheme has paid out

²² The Department for Local Government and Communities produced a ‘plain English’ guide to rates retention and the interaction with the Local Government Finance Settlement in 2013. It is available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78784/130206_Plain_English_Guide_-_Business_rates_retention_and_the_local_government_finance_settlement.pdf. In addition there is a large amount of discussion on Rates Retention from key stakeholders such as the Institute for Fiscal Studies, National Audit Office etc.

around £2.5 million to councils over the past two years – around 0.1% of total NDR revenues in Scotland.

- C.26 We recognise that any debate around retention of non-domestic rates needs to be balanced with consideration of the wider Local Government Finance landscape. For example, we are aware that the Commission on Local Tax Reform discussed whether “assigning” a share of revenues from the Scottish Rate of Income Tax would be help to broaden the tax base of Local Government²³, prompting some discussion of how this would interact with the Local Government Finance settlement. We therefore believe that while there is merit in a discussion of incentivising councils to grow their non-domestic rates tax base, this should take place as part of a wider discussion on Local Government Finance.

²³ <http://localtaxcommission.scot/html-version-of-just-change-a-new-approach-to-local-taxation/13-conclusions-and-recommendations/>

C.7: Ensuring that every ratepayer pays something.

- C.27 Non-domestic rates represent a contribution by businesses (and other groups) to the costs of providing public services. This was a point widely understood – and supported – by the ratepayers we met.
- C.28 Indeed, we met with numerous ratepayers who expressed some guilt at not paying any rates, and a sentiment that they should be making some – even it was a small – contribution to paying for local services.
- C.29 As we have discussed in reference to the Large Business Supplement, a large majority of non-domestic rates are paid by ratepayers with larger properties – properties with a rateable value of over £51,000. This is reflective of the fact that in rateable value terms, the tax base is made up primarily of a relatively small number of large properties. However, the opposite is true when looking at the number of properties on the valuation roll. In terms of the number of properties, there are a large number of properties with a smaller rateable value. Approximately 182,000 properties – 77% of the properties contained on the valuation roll have a rateable value of less than £18,000.
- C.30 The Scottish Government – in common with the UK Government – has prioritised relief for small businesses. Indeed, the Scottish Government’s report on the 2017 revaluation notes that over half of the properties on the valuation roll will pay no rates in 2017-18 – with 100,000 properties paying no rates as a result of the Small Business Bonus Scheme. As such, the Scottish Government’s relief policies dramatically narrow the tax base in terms of the number of properties that pay a rates bill.
- C.31 For reasons discussed earlier, we think there is merit in an independent review of the Small Business Bonus Scheme. We also considered whether or not to recommend that every rate payer pays something into the rates system. This could take the form of a minimum bill, or registration fee etc.

We did not foresee this generating large amounts of revenue – the intentions of this idea would be to create a symbolic link between every rate payer and the provision of public services in their local area. For example, a minimum charge of £250 (£5 per week) would affect around 110,000-120,000 properties that currently do not pay rates. As such revenues raised would be relatively low – up to £30 million – or around 1% of current income levels. In practice it is likely that revenues would be lower. For example, it wouldn't be reasonable to expect very small properties (with a rateable value of less than £500 – approximately 17,500 properties) to pay this fee. It would also place an administrative burden on owners of these small properties that could be perceived as disproportionate and so it is foreseeable that collection rates would not be as high as seen across the rest of the tax base.

- C.32 The costs of billing an additional 100,000 plus properties for a relatively small amount, such as £250, may also be problematic. We heard from billing authorities who noted that the Small Business Bonus Scheme had allowed them to reduce their staffing levels as a result of processing far less bills. Reversing this trend would therefore carry some costs.
- C.33 We remain attracted to this idea in principle, but recognise the limitations set out above. We therefore urge the Scottish Government revisit this topic in light of the results of the independent review of the impact of the Small Business Bonus Scheme – as this is the policy with which a minimum charge would have the largest interaction.

C.8: Taking the public sector out of rates altogether.

C.34 A small number of individuals and organisations suggested to us that the public sector should be taken out of rates altogether – to avoid “cycling” money around the public sector and increase efficiency.

C.35 It is first worth considering how much of the total tax is paid by the public sector – Table C1 looks at pre-relief bills by public/private sector, and key areas where the public sector pays rates. As can be seen, less than a sixth of pre-relief bills are attributable to the public sector. The majority of these bills are attributable to councils, who are responsible for a wide range of public services, including education, social care, waste management and cultural services. NHS Scotland accounts for around £100 million of pre-relief bills. The other category includes Scottish Government (e.g. Civil Service offices), UK Government (e.g. Ministry of Defence properties), and other bodies:

Table C1 - Breakdown of the tax base showing public sector properties.

Occupier Type	Total Properties		Total Rateable Value		Total Gross Bills	
	No.	% of Tax Base	£m	% of Tax Base	£m	% of Tax Base
Public Sector Total	22,400	10%	1,080	15%	520	15%
... of which Council owned	15,300	7%	600	8%	290	8%
... of which NHS owned	2,100	1%	190	3%	100	3%
... of which other	5,000	2%	280	4%	140	4%
Whole of Tax Base	233,000	100%	3,570	100%	3,570	100%

Source: Valuation Roll (April 2017).

C.36 We acknowledge that there are some attractions to this idea, however we were not minded to consider it at length. This was because we did not find significant support for the idea, even amongst public sector rate payers, and we realised that it wouldn't raise any extra money to pay for public services, as the move would simply give with one hand (reducing rates liabilities for the public sector) and take with another (reducing the rates revenue that pay for public services).

- C.37 We found that many of the public sector rate payers we spoke to thought that it was right that they pay rates. In the first instance they recognised that rates help to pay for public services anyway, and so any gains would therefore be made in terms of the administrative costs of complying with the non-domestic rates system, not by reduced bills.
- C.38 In the second instance many public sector ratepayers made the point that often they were in competition with the private sector, and paying rates forced them to manage their commercial assets efficiently – selling off empty buildings etc. This was essential for the credibility of business facing elements of the public sector, given they were encouraging these sorts of behaviours more widely. In sectors where the private sector can also provide a particular service – such as prisons and hospitals – allowing the public sector providers to qualify for rates relief might give them an unfair advantage over private sector providers.
- C.39 The third argument that we heard in favour of maintaining the status quo was from rates practitioners – given the increasingly blurred lines between the public and private sector, it wasn't clear that this sort of policy could be enacted without creating unintended consequences. Increasingly, even public sector buildings that aren't in competition with the private sector will contain some elements that could be considered private. For example, many public sector buildings contain ventures which compete with private businesses such as cafes, nurseries, gift shops or meeting facilities. In other instances such as where a private sector firm occupies a building in order to produce a good or service for the public sector, it may not be entirely clear whether the building is in the private or public sector.
- C.40 In considering these issues we therefore did not feel that a blanket relief or exemption for the public sector could help meet the remit we were given.

C.9: Introducing marginal rates of tax.

- C.41 In Section B.1, we mentioned that several consultation responses suggested that non-domestic rates should become more like Income Tax. The context was employing a more or less fixed tax rate, and instead of poundage changing each year. Another way that non-domestic rates could be brought more in line with Income tax would be to employ marginal tax rates.
- C.42 Poundage and the Large Business Supplement (LBS)– currently operate as a “slab tax”. This means that small changes in rateable value can lead to a large change in a property’s bill. For example, a property with a rateable value of £51,000 typically pays a tax bill of more than £1,000 higher than a property with a rateable value of £50,999. The Small Business Bonus Scheme operates in a similar manner.
- C.43 A marginal tax rate would ensure that instead of small changes in rateable value causing large changes in bill entitlement, taxes gradually increased with rateable value.
- C.44 While such a structure would be attractive, the complexity that would be involved with adopting such a structure likely prohibit it being effective and well understood. Clearly, a marginal rate can be relatively well understood – much like income tax. However, it is unclear if the concept could be easily translated to the non-domestic rates tax base where the tax base is measured in rateable value – a concept that isn’t as easy to define as PAYE income. In the absence of annual revaluations, it is also problematic that both the bands and the rates under this sort of structure may need to be adjusted every year in order to achieve revenue neutrality.
- C.45 The analysis below looks at what sort of tax rates might be possible under such a scheme, under the following assumptions:
- The analysis uses individual property values, rather than the total RV attributable to each ratepayer. Any move to marginal rates would

need to be done on a ratepayer basis rather than a property by property basis – otherwise it would incentivise large ratepayers to split up their properties in order to qualify for lower taxes.

- The analysis was carried out on 2014-15 values and using outturn data on 2014-15 income and relief expenditure, as this was the latest publically available data at the time of the analysis.

- C.46 As part of this exercise, it is assumed that this structure must achieve revenue neutrality, subject to the caveats above. In 2014-15, it is assumed that this means the system would raise around £3.0 billion.
- C.47 This figure is based on published non-domestic rate revenues statistics for 2014-15.
- C.48 In 2014-15 total non-domestic rate revenue was £2.5 billion with £0.7 billion of reliefs other deductions granted. Of this, £0.7 billion of reliefs, £0.2 billion was attributable to the Small Business Bonus Scheme (SBBS). The remaining £0.5 billion were attributable to other relief schemes and deductions such as charitable rates relief and bad debts.
- C.49 This analysis removes reliefs provided under SBBS and incorporates the value of these reliefs into the tax bands. Therefore the revenue neutral target is £3.0 billion coming from £2.5 billion of non-domestic rate revenue plus £0.5 billion of other reliefs and deductions.
- C.50 Three different scenarios are presented that would achieve broad revenue neutrality. The relevant comparison for this group is the tax levied in that year (the poundage rate was 47.1p or 47.1% with an LBS rate of 1.1p or 1.1%).

C.51 The scenarios are:

- 1) “Central Scenario” - A tax band structure with all properties paying rates, with rates for larger properties being somewhat higher than those for small properties.
- 2) Scenario 2: The same tax rate is applied across all rateable value tax bands
- 3) Scenario 3: A tax band structure with some properties exempt from paying rates, with rates for larger properties being significantly than those for small and medium sized properties.

Table C2 - Illustrative marginal tax rate structure - based on 2014-15 tax base.

RV Band (April 1 2015)	No. of properties	2014-15 Tax rate*	Scenario 1		Scenario 2		Scenario 3	
			Tax Rates	Revenue (£m)	Tax Rates	Revenue (£m)	Tax Rates	Revenue (£m)
£0-£12,000	157,121	47%	25%	£159	45%	£286	0%	£0
£12,001-18,000	17,080	47%	40%	£71	45%	£114	0%	£0
£18,001-£35,000	19,875	47%	40%	£163	45%	£224	0%	£0
£35,001-£100,000	18,026	48%	50%	£433	45%	£476	60%	£256
£100,001-£500,000	9,324	48%	50%	£895	45%	£840	60%	£925
£500,001-£1,000,000	1,029	48%	55%	£369	45%	£317	80%	£439
£1,000,000 plus	591	48%	55%	£926	45%	£767	90%	£1,403
Total	223,046	-	-	£3,016	-	£3,023	-	£3,021

* Note that this is largely illustrative – the tax rate faced by many rate payers is dependent on SBBS and other relief eligibility. In practice, many rate payers faced a significantly lower tax rate than is implied by this column.

Source: Review Group analysis based on Valuation Roll (April 2015).

C.52 Under the central scenario, all properties under £250,000 rateable value see a decrease in rates paid. Smaller properties will see the greatest benefit from this change, seeing a larger percentage decrease in their bill. However, with no SBBS provided a large number of properties under £12,000 will see an increase in their bill.

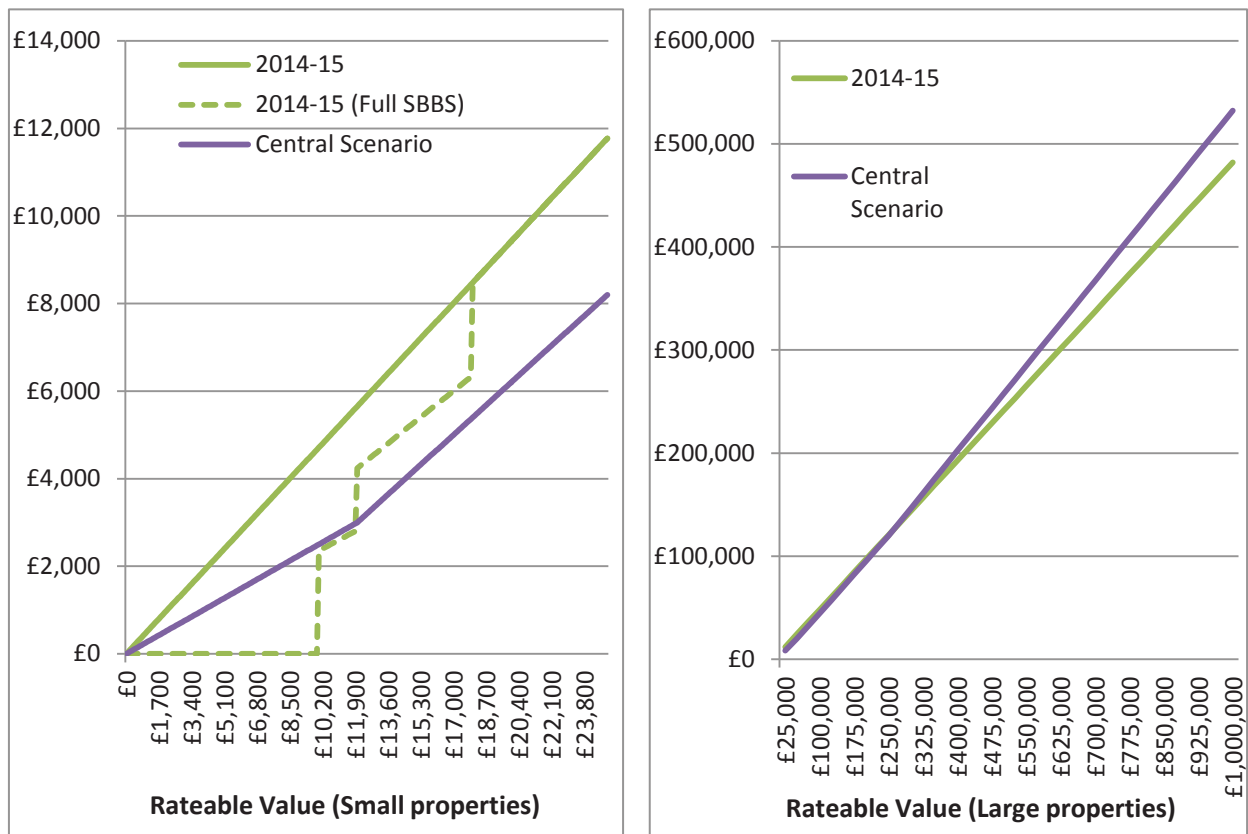
C.53 Under the second scenario, the same rate is applied on all rateable value – similar to poundage. The smallest properties see an increase in non-

domestic rates paid (as a result of SBBS being withdrawn), whilst medium and large properties will see a decrease in their tax bill.

C.54 The third scenario applies a very “progressive” tax structure – to the extent that increasing tax rates in line with rateable value can be considered progressive. Small and medium sized properties pay little or no non-domestic rates. This is financed by large increases in non-domestic rate bills for high rateable value properties. Properties with a rateable value over £250,000 see larger bills – with the largest rateable values seeing very large increases in rates liabilities.

C.55 Charts C1/ C2 present a comparison of the central scenario to actual tax bills levied in 2014-15:

Charts C1 and C2 – Projected bills under “Central Scenario” versus actual 2014-15 bills.



(Chart on left gives a detailed picture of the changes for low rateable value properties, whereas the chart on the right focusses on a wider range of rateable values).

Source: Review Group analysis of Valuation Roll (April 2015).

Table C3 outlines the non-domestic rate due under each scenario for a series of properties with different rateable values (RVs) in more detail:

Table C3 - pre-relief bills under illustrative marginal tax rate structure.

RV	Pre - Relief Bills Under Various Modelling Scenarios				
	2014-15 - no Relief Entitlement	2014-15 with Full SBBS Entitlement	Central Scenario	Scenario 2	Scenario 3
£8,000	£3,768	£0	£2,000	£3,600	£0
£11,500	£5,417	£2,708	£2,875	£5,175	£0
£15,000	£7,065	£5,299	£4,200	£6,750	£0
£25,000	£11,775	£11,775	£8,200	£11,250	£0
£50,000	£24,100	£24,100	£19,700	£22,500	£9,000
£100,000	£48,200	£48,200	£44,700	£45,000	£39,000
£250,000	£120,500	£120,500	£119,700	£112,500	£129,000
£500,000	£241,000	£241,000	£257,200	£225,000	£279,000
£15,000,000	£7,230,000	£7,230,000	£8,232,200	£6,750,000	£13,279,000

Source: Review Group analysis of Valuation Roll (April 2015).

- C.56 To afford a system that is better for all smaller properties (e.g. scenario 3), would require very high marginal rates of tax to be applied to more valuable properties, however given the prominence of single large ratepayers, the rates outlined in scenarios 1 and 3 could be adjusted downward somewhat.
- C.57 We do see this is an interesting idea – and are attracted to the idea of abandoning the “slab tax” structure of SBBS, and Large Business Supplement in favour of marginal rates, however it is clear that much would need to be developed to make this sort of structure feasible.
- C.58 We believe that this sort of structure could only feasibly be implemented if tax rates were not subject to change from one year to the next. Stakeholder groups have highlighted the difficulty that many ratepayers have in fully understanding their rates bill. In a scenario where multiple tax rates and bands changed each year, it is unlikely that any efficiency gains associated with this sort of change could outweigh the costs in terms of reduced transparency and accessibility.

- C.59 We also believe that the above analysis only describes part of the picture. The Valuation Roll or the system used for billing ratepayers would have to be improved substantially. Marginal rates of tax would only work if levied on cumulative holdings. For example, it would make little sense for a large company that owns hundreds of small properties to pay lower rates of tax than a much smaller company that owns a single larger property. This would also be essential for avoiding a situation where ratepayers can split up their properties in order to create a lower rates bill.
- C.60 Even if these conditions outlined above were met, there would be merit in a discussion of whether or not higher rental values should incur a higher marginal tax rate. For these reasons, we decided to focus our work and recommendations on areas where achievements could be realised much sooner. However, we did want to include some analysis of this idea in our report, as if these conditions are met, then this sort of scheme would be far more achievable, and worthy of further consideration.

ANNEX D - ESTIMATED COSTS OF BARCLAY REVIEW.

Remuneration of Chair and Group members	£0
Training provided by Institute Revenues Rating and Valuation	£400
Travel costs*	£1,113
Room hire and catering	£4,718
Includes oral evidence sessions and meetings around Scotland (Government buildings used where possible)	
Publication costs*	£1,744
Total costs	£7,975

* pending any final adjustments

ANNEX E GLOSSARY.

Appeal - The valuation appeals system allows a ratepayer to challenge the Assessors rateable value for their property. This has various stages, but initial appeals are heard by local panels.

Assessor - An independent public official who determines the rateable value of all properties entered on the valuation roll, along with other functions. Assessors must be members of the Royal Institution of Chartered Surveyors and work under a non-Statutory umbrella body called the Scottish Assessors Association.

Council Tax - a property tax levied on domestic property and used to fund local services.

Large Business Supplement (LBS) - a supplement paid in addition to the standard poundage by larger properties used to fund part of the cost of the Small Business Bonus Scheme (SBBS). The remaining cost of SBBS is funded from the Scottish Government Budget. In 2016-17 and 2017-18 the LBS is 2.6 pence and from 1 April 2017 this is paid by properties where the rateable value is over £51,000.

Non-domestic rates - A property based tax, also known as business rates, levied on non-domestic property that is used to fund local services provided by the council, including those provided to businesses. The rating system is administered by councils.

Poundage - A pence in the pound tax rate that is multiplied by the rateable value to calculate the rates bill for any property (before relief). If the poundage was 45p a property with a rateable value of £20,000 would have a rates bill calculated as $£20,000 \times 45/100 = £9,000$.

In England the poundage is usually called the multiplier.

Rateable value - For most property this is the Assessor's determination of one year's annual rent on the open market. This is determined by looking at rents for similar or nearby properties.

Ratepayer - Anyone who is liable for rates on a non-domestic property. Ratepayers include businesses, public sector, third sector and citizens.

Relief - A discount/ reduction applied to the rates bill of eligible properties. Most reliefs are funded by the Scottish Government, although councils do have discretion to create their own bespoke reliefs.

Revaluation - All properties are reassessed by the Assessors at a revaluation, the purpose of which is to redistribute the tax based on more recent market conditions. The last revaluation was in 2017, the next planned revaluation will be in 2022.

Revaluation date (also known as the Effective Date) - This is the date that the Assessor's new rateable value for the property becomes effective and rates based on the value become chargeable. For the purposes of the 2017 Revaluation all rateable values for existing properties are effective from 1 April 2017.

State aid - State aid refers to forms of assistance, including financial assistance from a public body, or publicly-funded body, which has the potential to distort competition and affect trade between member states of the European Union. The European Commission monitors and controls State aid in the EU. To meet EU requirements the assistance given under several reliefs including Small Business Bonus Scheme, renewable generators and enterprise areas are capped by at State aid *de minimis* (meaning a maximum of €200,000 can be awarded over a rolling 3 year period (depending on exchange rates this caps the benefit at around £65,000 to £70,000 a year). While the UK remains within the EU, rate relief should always consider State aid.

Tone date - The date at which all properties are valued by the Assessor. Currently this is 2 years before the revaluation date. Using a single date for all properties ensures fairness and allows the Assessor sufficient time to collect evidence from ratepayers. The tone date for the 2017 revaluation was 1 April 2015.

Valuation Roll - A record of all non-domestic (business) premises valued by the Assessor, including their address, rateable value and other related data. Valuation rolls are searchable online at www.saa.gov.uk



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