House of Commons

Treasury Committee

Impact of business rates on business

First Report of Session 2019–20

Report, together with formal minutes relating to the report

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The Treasury Committee

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Summary

This report considers the administration of business rates in England and Wales. Business rates are handled differently in Scotland and Northern Ireland.

Business rates are a form of property tax charged on most non-domestic properties. They are calculated on the basis of a property's 'rateable value', which is currently its open market rental value on 1 April 2015, as estimated by the Valuation Office Agency.

Since business rates were introduced in their current form in 1990, the revenue they have generated has outpaced inflation. They are also growing as a proportion of the total tax paid by businesses. In 2018–19, £31 billion of government income was raised through non-domestic property rates, one of the seven highest grossing taxes in the UK.

The Government needs to explain whether it is deliberate policy to allow the revenue generated by business rates to increase above the rate of inflation and to become an increasingly significant proportion of the total taxes borne by businesses. If these are deliberate policy decisions, the Government needs to explain the rationale behind their policy and what it is intended to achieve.

The incidence of business rates does not fall upon all businesses equally:

- methods of valuation applied to ostensibly similar businesses can lead to widely varying rates bills
- business rates place a far greater cost on businesses that need a physical presence to trade–such as high street shops–than those that can rely more upon an online presence.

Businesses can face a dilemma when spending money to improve their property because it can lead to a higher rates bill. This means that business rates can work against government policy to improve productivity, improve digital connectivity and encourage the use of more energy- efficient technology.

Because business rates are a property tax, rather than a tax based on profits, they take no account of whether a business is doing well or suffering from poor trading conditions.

Tweaking the current system of business rates through an increasingly complex web of reliefs does little to address the negative aspects of this tax and simply demonstrates how broken the system is. Given the changing nature of the economy, and with high streets on the decline, the Government needs to be curious, proactive and creative in exploring alternative options to such an important source of revenue.

Businesses deserve a system that is reactive to changes in the modern economy and fit for purpose. We considered alternative options to replace or reform the current system of business rates that were intended to address the negative impacts of business rates. However, further work was needed to fully model the proposals and provide the necessary evidence to support any recommendation. The Government should take a deeper and more holistic look at possible alternatives that would keep the benefits that business rates offer, being a secure and reliable source of revenue, whilst addressing the

weaknesses. It should prepare a consultation in time for the next Spring Statement to identify potential alternatives to business rates with a view to subsequently carrying out a detailed evaluation of viable options.

Any reform of the system should have particular regard both to the need to maintain the total income for local authorities, and to keep the link between individual authorities and the current and potential new businesses in their areas.

While the Government considers deeper structural reform, there are improvements which should be made to the current system.

Business rates reliefs are intended to reduce the financial burden placed on businesses. But they are to some extent arbitrary, administered inconsistently and add complexity to a system that is already onerous. The proliferation of reliefs seen as necessary to make business rates work show the strain that the business rates system is under. Outdated or unneeded reliefs should be removed. Other reliefs should be improved; for example, transitional relief should be redesigned to ensure that, before the end of a rating list, businesses can complete the transition, upward or downward, to their correct rateable value.

The Valuation Office Agency needs to resolve a large caseload of open appeals relating to the 2010 listing. It also needs to provide a better service for businesses trying to use its Check Challenge Appeal process for current valuations. Check Challenge Appeal is a reasonable attempt by the Valuation Office Agency to address weaknesses in the previous appeal process. Its functionality has improved since it was first introduced. But further improvement and better guidance on using the system is needed.

The current statutory response times built in to the CCA process are excessive. The Government should reduce the statutory time limits for both Checks and Challenges to a more reasonable timeframe, preferably a maximum of six months each.

Processes for reaching agreed property valuations for business rates purposes need to be made more transparent so that businesses can progress their appeals faster and be assured that they are being treated fairly. The Valuation Office Agency must be more open with business about the evidence on which they base their valuations.

The Valuation Office Agency must ensure that it uses valuation methodologies that fairly reflect changing business practices.

While business rates in England and Wales continue in their current form, the Government needs to ensure that the Valuation Office Agency is properly resourced, particularly if its plan to carry out revaluations every three years, instead of five, is to be a success.

Introduction

Conduct of the Committee's inquiry

1. For the purposes of this report, non-domestic property rates will be referred to as business rates, as they are more commonly known. This report considers the administration of business rates in England and Wales. Business rates are handled differently in Scotland and Northern Ireland.

2. The Treasury Committee launched the *Impact of business rates on business* inquiry on 1 February 2019. This inquiry was launched to assess:

- The impact of changes in business rates policy since 2017, in particular
  - changes in reliefs and allowances available;
  - the ability of business to pay; and
  - the relationship between Business Rates and the behaviours it drives in business.
- How the current business rates system measures up against the following pillars of good tax policy; that is, to what extent:
  - it is fair;
  - it supports growth and encourage competition;
  - it provides certainty; and
  - it is coherent.
- The economic justification for a property-based business tax alongside potential alternatives:
  - the impact of business rates on rental prices;
  - the impact of business rates on property prices;
  - alternatives to property-based taxes, such as the proposed digital services tax;
  - the problems associated with property-based taxes; and
  - the impact of changes (proposed and actual) of Business Rates on Local Authorities and Councils, and the High Street.

3. We would like to thank all of those who engaged with our inquiry.

4. We held five oral evidence sessions:

- 7 May 2019—John Boulton, Technical Strategy Department Manager, Institute of Chartered Accountants in England and Wales; Tom Emlyn Jones, President, Rating Surveyors Association; Neil Leitch, Chief Executive, Early Years Alliance; Paul Crossman, Multiple pub operator; Kate Nicholls, Chief Executive, UK Hospitality; and Mandy McNeil, Vice Chair, Save UK Pubs.

- 22 May 2019—Meryl Halls, Managing Director, Booksellers Association; Chris Harris, Group Property & Development Director John Lewis Partnership; Sebastian James, Chief Executive, Boots UK; Catherine Gras, Spokesperson for Gas Storage Operators Group and Chief Executive, Storengy UK; Adam Blaskey, Founder, The Clubhouse; Seamus Nevin, Chief Economist, Make UK; and Eleanor Griggs, Land Management Adviser, National Farmers Union.

- 4 June 2019—Andy Street CBE, Mayor, West Midlands Combined Authority; Cllr Richard Watts, Islington Council Leader, Local Government Association; Prof. Chris Turner, Chief Executive, British BIDs; and Ojay McDonald, Chief Executive, Association of Town and City Management.

- 19 June 2019—Jerry Schurder, Head of Business Rates, Gerald Eve LLP; Rachel Kelly, Senior Policy Officer, British Property Federation; Kevin Muldoon-Smith, Lecturer, Northumbria University; Tej Parikh, Chief Economist, Institute of Directors; and Steve Rigby, Group Property Director, Tesco.

- 10 July 2019—Melissa Tatton, Chief Executive, Valuation Office Agency; Alan Colston, Chief Valuer, Valuation Office Agency; Jesse Norman, Financial Secretary to the Treasury, HM Treasury; Rishi Sunak, Minister for Local Government, Ministry of Housing, Communities and Local Government; and Mike Williams, Director Business and International Tax, HM Treasury.

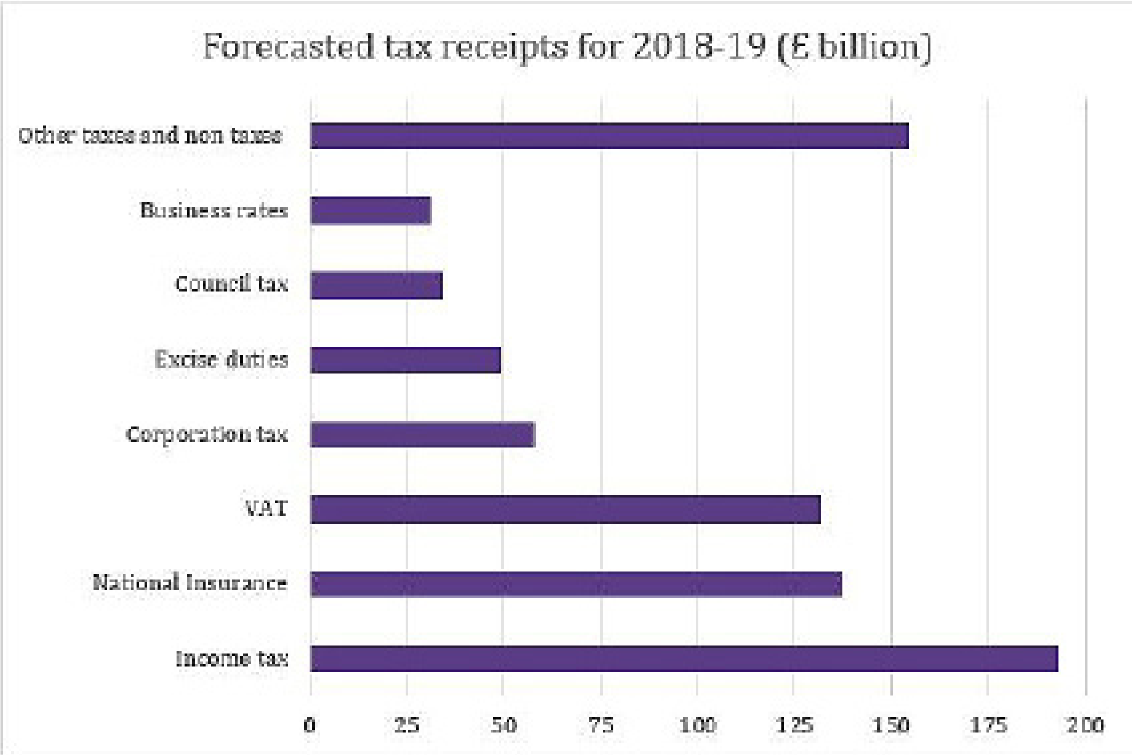
5. In response to our call for evidence we received over 140 submissions from stakeholders. This included submissions from representative bodies of business, campaign organisations, independent businesses, national brands and chains, chartered surveyors, councils and charities.

6. We held an outreach event in Birmingham on 20 May 2019 to gather evidence. This event allowed us to meet organisations on an informal basis and included several organisations who had not previously engaged with us.

1 Overview of business rates as a tax

7. Business rates are a significant source of revenue for the UK Government. In 2018–19, the OBR forecast that £31billion of government income would be raised through non-domestic property rates, one of the seven highest grossing taxes in the UK.[1]

Chart 1: Forecasted tax receipts for 2018–19 (£ billion)



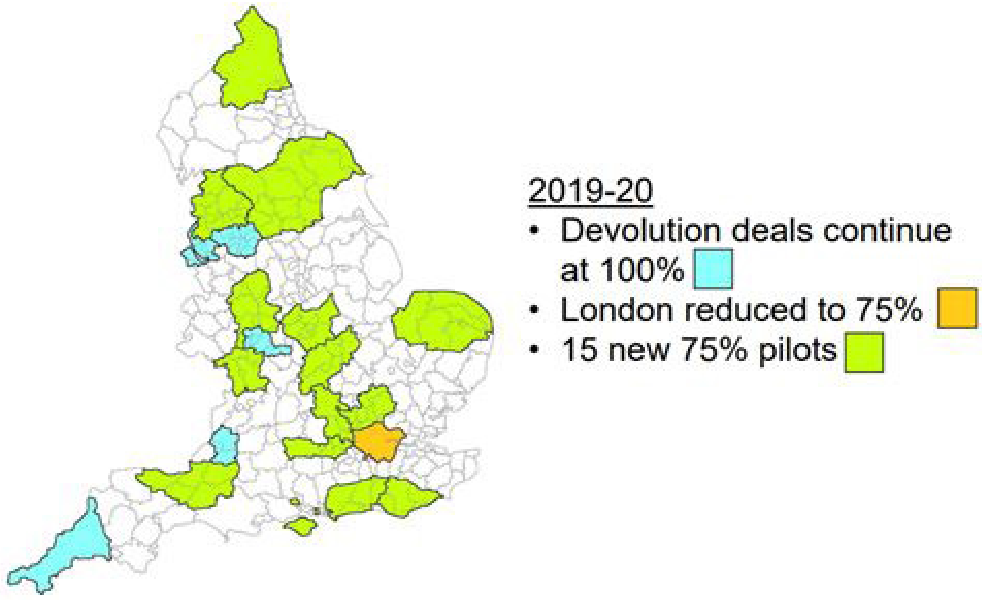
Source: Office for Budget Responsibility[2]

8. Business rates policy is set by central government, whilst the administration of the system is carried out by local government. Generally, business rates are difficult for a business to avoid. Jesse Norman MP, the Financial Secretary to the Treasury, told us that "the [business rates] system collects 98 per cent of the tax that is due. Very few other taxes do that, anywhere in the world." He went on to say that he noted that "there are undoubtedly concerns, which it is important to address."[3]

9. At present, Local Authorities retain 50 per cent of their business rates income as standard, with some areas piloting increased rates of 75 or 100 per cent.

1 Office for Budget Responsibility, 'Economic and fiscal outlook - March 2019'
2 Office for Budget Responsibility, 'Economic and fiscal outlook - March 2019'
3 Q543

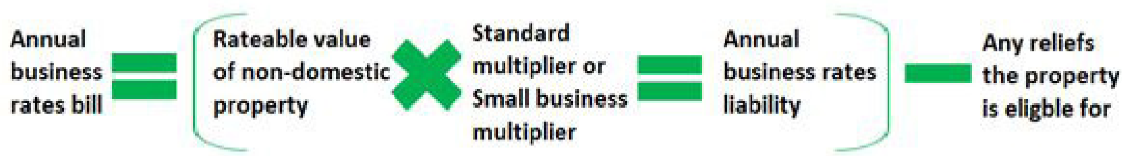
Box 1: Business rates pilots 2019–20



Source: Local Government Association and Ministry for Housing, Communities and Local Government[4]

10. The Local Government Association told us that the business rates systems raised a broadly similar amount to government grants to Local Authorities, excluding grants for schools.[5]

Box 2: How to calculate your business rates liability



Source: Treasury Committee

11. The system works by charging all non-domestic properties in England business rates. An individual building's business rate liability is calculated by taking the market rental value of the property and multiplying it by the appropriate business rates multiplier (i.e. the Standard Multiplier or the Small Business Multiplier) to create the annual business rates liability. Once a liability has been calculated, any reliefs that the business is entitled to are deducted, leaving the organisation with a final rates bill.[6]

Rating lists

12. Responsibility for compiling and maintaining statutory rating lists of rateable values for non-domestic properties sits with the Valuation Office Agency (VOA). A rating list shows all non-domestic properties in a billing authority's area with their rateable value

4 Local Government Association and Ministry of Housing, Communities and Local Government, 'Business rates retention', accessed 23 August 2019
5 Q275
6 Gov.uk, 'Estimate your business rates', accessed 9 July 2019

and other relevant information. Under current legislation, valuations are meant to be performed every five years, but at the time of this report, legislation was going through Parliament to increase the frequency of revaluations.[7]

13. The VOA base their rating list on real data. To give the VOA time to collate the data required, and to discuss proposed values with businesses, there is a two-year time delay between the data used to generate a liability, and the date when the new valuations are implemented. For example, the underlying data for the current list brought into use in April 2017, are the market rental values of non-domestic properties as at 1 April 2015.

14. Instead of introducing a new rating list in 2015, the Government chose to delay until 2017.[8] As a result, there is a seven-year gap between the current 2017 rating list and its predecessor in 2010.[9] The 2010 rating list was based on rental values at 1 April 2008, which was when market valuations were peaking before the 2008 financial crisis.[10] The valuation date for the 2017 rating list is 1 April 2015. The changing economic circumstances in the UK between April 2008 and April 2015 resulted in significant movement in the rental market valuations for some sectors and locations. The delay in creating a new rating list meant that some businesses had to pay a high level of business rates that did not reflect the downturn they had experienced in market conditions.

15. Jerry Schurder, Head of Business Rates at Gerald Eve, explained to the Committee that "one of the fundamental problems that we have with the system, and have had for many years, is the infrequency of revaluation." He went on to say that one of the fundamental steps required to "make business rates fair again is far more frequent revaluations—far more frequent than even the three-yearly revaluations that the Government intend to introduce."[11]

16. The CBI explained that regular revaluations are fundamental to long-term investment decisions. They told us that "for longer term investments requiring an in-depth business case significant variability around the expected business rates bill could result in these investments being deemed commercially unviable."[12]

17. Whilst noting that moving to a three-yearly revaluation is better than a five-yearly revaluation, the data that is being used pre-dates the valuation period by two years. This is because valuations are based on the antecedent valuation date[13] which is two-years before the valuation date. Therefore, at the end of a three-year valuation period, the valuations would be based on data from five years previously.

18. We asked the VOA why they needed the two-year gap between the antecedent valuation date and bringing the rating list in. They said:

> The gap set out in the legislation enables us to collect the evidence in advance. There is a complex process to doing revals […] There are often

7 Parliament website, 'Non-Domestic Rating (Lists) Bill 2017–19', accessed 28 October 2019 - The 2019 Autumn Prorogation meant that this Bill would make no further progress.
8 HC Deb, 12 Nov 2012 : Column 1WS
9 HC Deb, 12 Nov 2012 : Column 1WS
10 HC Deb, 12 Nov 2012 : Column 1WS
11 Q354
12 CBI (IBR0100)
13 The antecedent valuation date is the date set by Parliament on which all valuations are based. This is normally set exactly two years prior to the date on which the valuation list comes into force.

> lags in the property market, depending on when the deal is done. Rent renewal or lease renewal might have a date of, say, 1 April, but the two surveyors involved in agreeing that deal might not agree that rent for nine or 10 months afterwards. The antecedent valuation date gives us the best possible window to gather all the available evidence.[14]

19. We asked the VOA what could be done to reduce the two-year gap. They responded:

> The process for each revaluation is normally around three years. We will be starting by 2024, which sounds like a long time away, but probably isn't. It is sooner than we would have done previously, and it will require us to work differently.[15]

20. Gerald Eve told us that the VOA should be targeting bringing down the gap between the antecedent valuation date to the listing from two years to one year, which would then allow for annual revaluations. They explained that:

> Much of the need for the current two year AVD[16] gap is because of the government's need to model the potential outcome of the revaluation and consult upon alternative transitional relief schemes. With annual rating revaluations it would be possible to dispense with any need for transitional arrangements.[17]

21. The call for a move to annual revaluation is echoed by organisations[18] like the Association of Accounting Technicians, a professional accountancy body, which cited countries like Hong Kong and Holland which operate annual revaluations. They told us that the "AAT welcomed the recent commitment to revaluations every three years but would still very much like to see this progressed to annual revaluations to provide increased certainty and accuracy."[19]

22. London First, an employers' campaigning organisation in London, said they believe annual revaluations are possible. They said that they "believe that improvements in technology and a move towards self-assessment, as is the case in Northern Ireland, will make annual revaluation possible in the near future."[20]

23. In Chapter 4 of this report we consider what moving to more regular valuations would mean for the staffing and resources of the Valuation Office Agency.

Inflation

24. The increase in government revenues generated by business rates has outpaced inflation since business rates were introduced in their current form in 1990. Since its introduction, business rates receipts have increased from £8.8 billion in 1990 to £27.3

14 Q505
15 Q506
16 AVD - Antecedent Valuation Date
17 Gerald Eve LLP (IBR0013)
18 Other organisations calling for annual revaluations include: All-Party Parliamentary Group on Land Value Capture (IBR0034); Energy and Utilities Alliance (IBR0029); London First (IBR0044); and River Island Clothing Company Ltd (For and on behalf of the Retailers Rates Action Group) (IBR0032).
19 Association of Accounting Technicians (IBR0014)
20 London First (IBR0044)

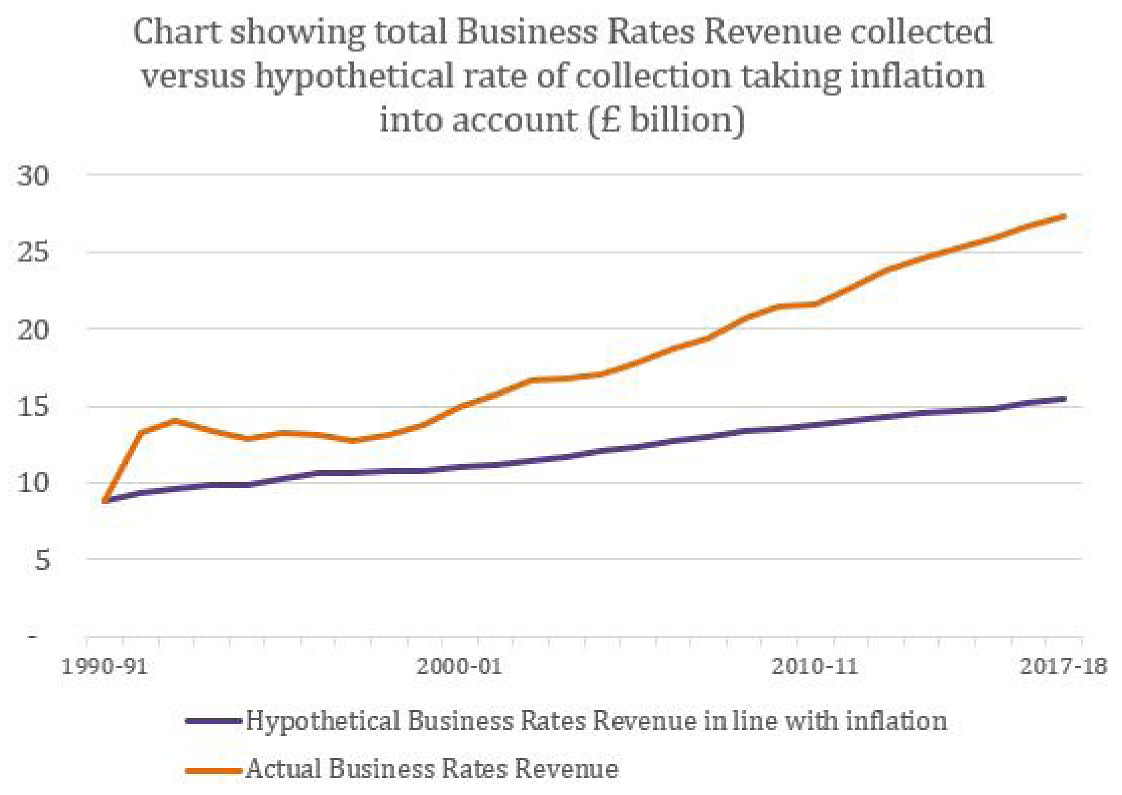
billion in 2017–18, an increase of 210 per cent. Had business rates revenue grown in line with inflation using the Treasury's deflator series, rates should have only increased by approximately 75 per cent. See Chart 2.

25. When we asked Jesse Norman MP, Financial Secretary to the Treasury, why this increase had occurred he said the increase was not much different to inflation:

> If you gross up £10 billion over 29 years by 2 per cent per cent to 3 per cent—that is what we are talking about, if we are talking about long-term interest rates or inflation—you can get into the order of £20 billion to £25 billion, so I do not accept that it has changed enormously.[21]

26. We disagree with this view. The evidence we have seen shows that business rate growth has significantly outpaced inflation since the current system was introduced in 1990.

Chart 2: Total Business Rates Revenue collected versus hypothetical rate of collection taking inflation into account (£ billion)

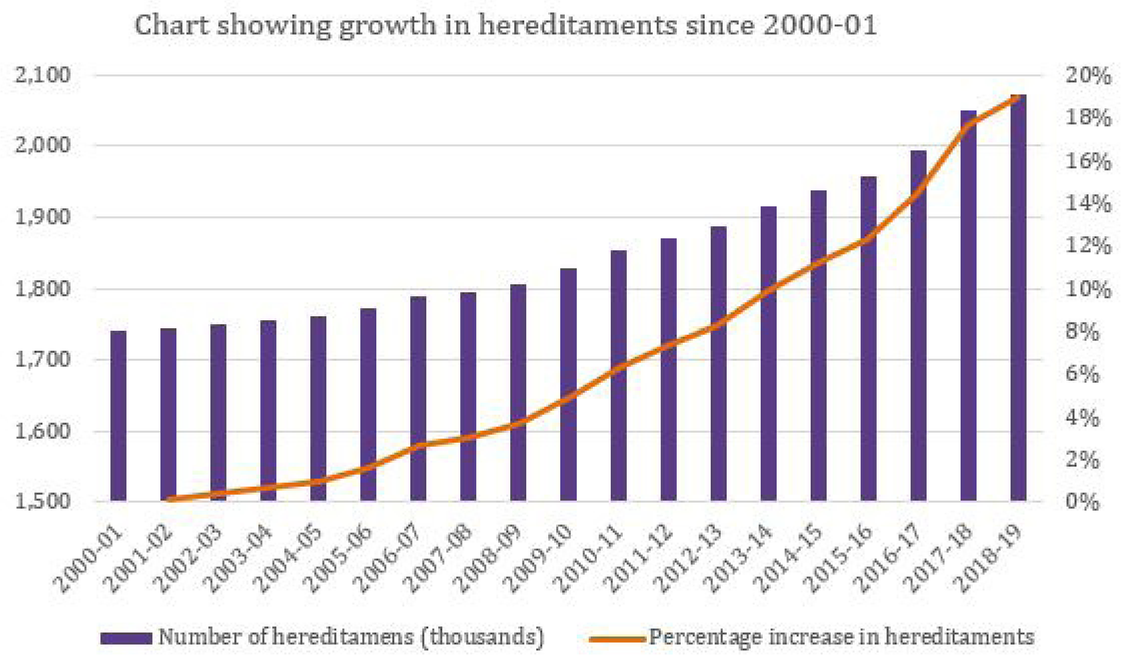


Source: Treasury Committee

27. A number of factors have contributed to the growth in revenue generated by business rates. For example, one of the drivers behind business rates growth outpacing inflation is the increase in the number of properties that are subject to business rates, which are referred to as 'hereditaments'. Between 2000–01 and 2018–19, the number of hereditaments increased by 19 per cent.[22]

21 Q544
22 Valuation Office Agency, Non Domestic Rates Stock of Properties - Table SOP3.0, July 2019

Chart 3: Growth in hereditaments since 2000–01



Source: Treasury Committee

28. **The growth in business rate revenue has outpaced inflation since the current system was introduced in 1990. Whilst noting that other factors have contributed to the variance, the Government should acknowledge that there has been an above inflation increase in commercial property-based taxation since its introduction in 1990 and that the revenue generated by business rates has grown as a proportion of GDP. We note below the effect that the timing of the release of the 2017 rating list and increases in the multiplier have had on increasing the level of business rates paid by business.**

29. **In response to this report, the Government should explain whether it is government policy to allow the growth in business rates to outpace inflation. This is a crucial question which also requires further consideration by the Committee. This will include the consideration of the impact of reliefs.**

30. The multiplier is the percentage that is applied to a property's rateable value to establish a business rates liability. There are two multipliers that can be used: the standard multiplier or the small business multiplier. To be eligible for the small business multiplier, a property's rateable value must be below £18,000, or £25,500 in Greater London.[23]

31. The standard multiplier in its current form has existed since 1990–91. It was initially introduced at a rate of 34.8p in the pound, or 34.8 per cent of the rateable value of a property. Since then, the standard multiplier has increased to 50.4p.[24] Over the same

23 Gov.uk, 'Estimate your business rates', accessed 29 August 2019
24 Southampton City Council website, 'Business rates multipliers', accessed 28 October 2019

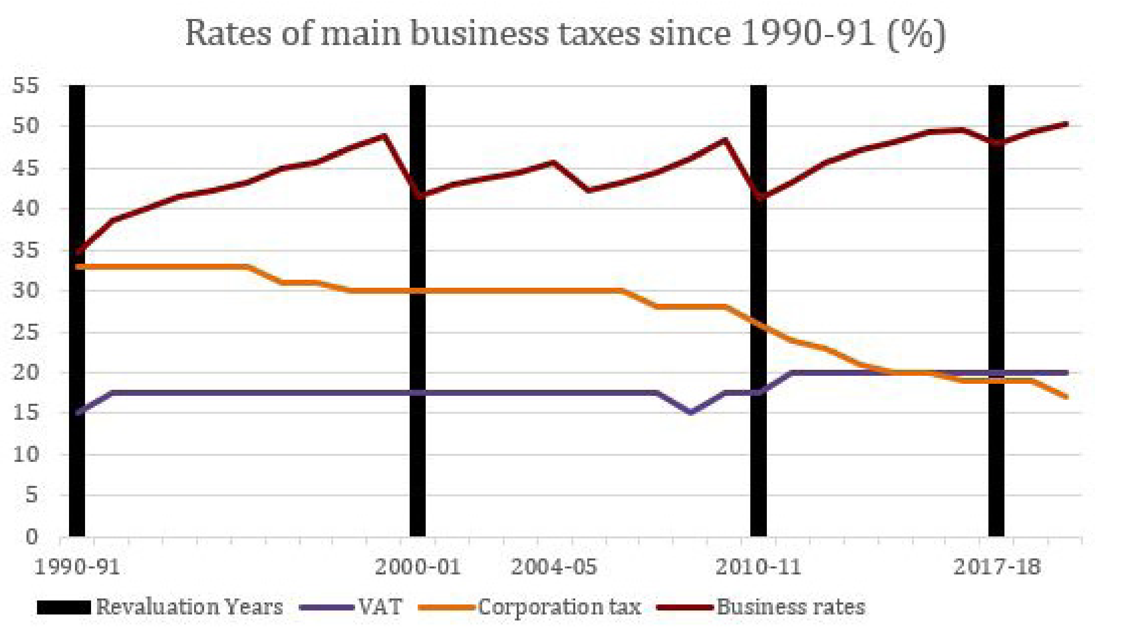
period, VAT has increased from 15 per cent to 20 per cent,[25] and corporation tax has decreased from 34 per cent[26] to 19 per cent and is set to fall further to 17 per cent from 1 April 2020.[27]

32. Concerns were raised by organisations like the Altus Group, a provider of independent advisory services, software and data solutions to the global commercial real estate industry, that the resultant business rates liability presents a "disproportionate burden on bricks-and-mortar businesses".[28] These organisations told us that business rates are considered to be a burden mainly because of the size of the multiplier and some called for the multiplier to be reduced to a more manageable level.[29]

33. The earlier delay in updating the 2010 rating list to reflect changing market conditions mentioned earlier in this chapter and the increase in the size of the multiplier have both contributed to businesses having to bear unfair and additional costs. In the next section we look at how this has led to business rates becoming an increasingly significant component of the total tax paid by businesses.

Business taxation

Chart 4: Rates of main business taxes since 1990–91



Source: Treasury Committee

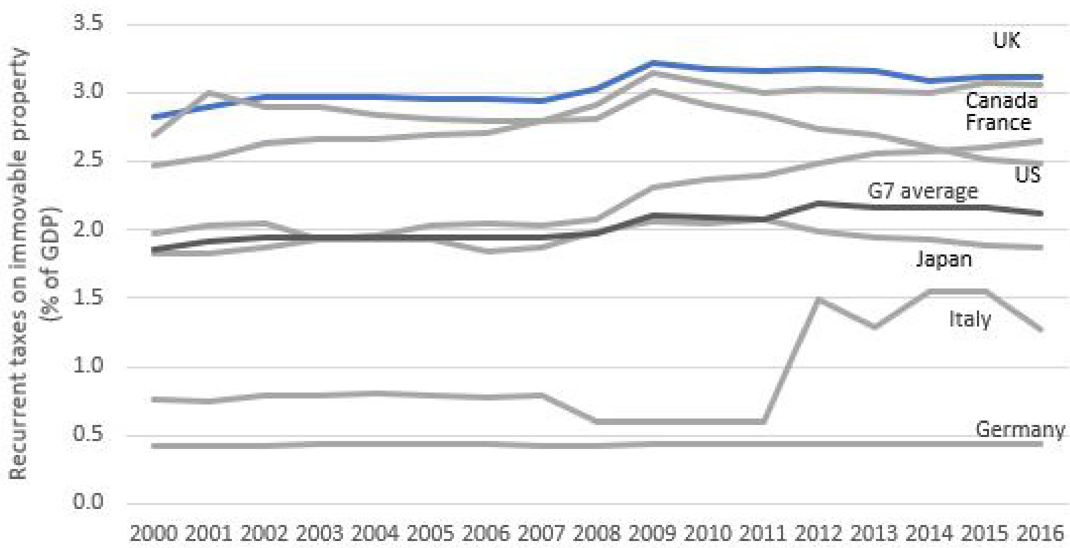
34. Blake Penfold, a consultancy that specialises in business rates, suggested that the current level of business rates may adversely affect the UK's ability to be competitive. They told us that:

25 Institute for Fiscal Studies, 'Fiscal facts: tax and benefits', accessed 28 October 2019
26 Institute for Fiscal Studies, 'Fiscal facts: tax and benefits', accessed 28 October 2019
27 HMRC gov.uk, 'Rates and allowances: Corporation Tax', accessed 28 October 2019
28 Altus Group (IBR0094)
29 Organisations calling for a reduction in the multiplier include: Accessible Retail (IBR0038), British Retail Consortium (IBR0057), Institute of Revenues, Rating and Valuation (IBR0109), intu properties plc (IBR0035), Love Wimbledon BID Ltd (IBR0037), The National Trust (IBR0048), and Virgin Media Limited (IBR0113)

> A comparison with competing economies makes clear the very high level of property taxes in the UK. OECD[30] and other figures show that the UK has the highest level of recurrent property taxes (measured as a proportion of GDP) of any OECD country (4.1 per cent in the UK in comparison with the average for OECD countries of 1.9 per cent) and as a proportion of total taxes (12.6 per cent in the UK in comparison with the average for OECD countries of 5.6 per cent). This puts UK businesses at a significant competitive disadvantage in comparison with countries both in Europe and the rest of the world.[31]

35. The CBI, a not-for-profit membership organisation representing British Industry, told us that the UK has the highest property taxes across the G7 as a proportion of GDP.[32]

Chart 5: Annual property taxes across the G7



Source: CBI[33]

36. This compares to the UK having the third lowest corporate tax rate in the OECD at 19 per cent,[34] and a VAT rate consistent with other countries in the OECD.[35]

37. Jerry Schurder, Head of Business Rates of Gerald Eve LLP, an international property consultancy firm, gave an example of how this approach to corporate taxation may adversely affect the attractiveness of the UK for future investment. He said that:

> Vauxhall UK did research in relation to all the local property taxes it pays across Europe. The UK occupies 8 per cent of its total floor space in Europe, but accounts for 67 per cent of the property taxes that it pays across Europe. That is the extent to which our system overtaxes all businesses. It is not just retail, although clearly there is an emphasis and focus on it.[36]

30 OECD - Organisation for Economic Co-operation and Development
31 Blake Penfold (IBR0027)
32 CBI (IBR0100)
33 CBI (IBR0100)
34 OECD, 'Tax policy reforms 2018: OECD and selected partner economies', accessed 24 July 2019
35 OECD, 'Tax policy reforms 2018: OECD and selected partner economies', accessed 24 July 2019
36 Q366

38. Several organisations[37] submitted written evidence stating that business rates were out of kilter with other business taxes and called for the multiplier to be reduced or frozen. Jerry Schurder summed this up by saying:

> Many businesses say, "I would be delighted to pay corporation tax, but I can't make any money." Business rates are one of the factors that get in the way.[38]

39. When we asked Mike Williams, Director Business and International Tax at HM Treasury, for his view on whether the multiplier was now set too high, and whether this created distortions in the market, he said that the overall level of taxation on business between countries balanced out:

> If you go back 30 years, we had relatively high annual business property taxes, and we have continued to have relatively high ones. I don't think there has been any manipulation of the multiplier to add to that amount, to give extra to local government, for example. If you charge more on property tax, compared with say, France, you charge less on consumption and profits; it is broadly the same cake.[39]

40. The point at which a tax is levied does have an impact on its perceived fairness. The Institute of Directors told us that they consider business rates to be " a regressive tax– given that it is not linked to a firm's profitability or revenue."[40]

41. The Clubhouse, a flexible workspace provider, put forward a suggested approach which they estimated would be revenue neutral. They proposed cancelling the forthcoming reduction in the corporation tax rate from 19 per cent to 17 per cent and reducing the business rates multiplier instead. Their analysis indicates that "almost one fifth of the annual Business Rates burden could be alleviated by keeping Corporation Tax at 19 per cent."[41]

42. **The increase in the tax rate of business rates appears to be inconsistent when compared to the UK's other corporate tax rates which are falling. The business rates multiplier has continued to increase over time, resulting in the UK having one of the highest property-based taxes in the OECD as a proportion of GDP.**

43. **We would like the Government to set out its views on the fact that business rates provides one of the highest property tax takes in the OECD. In its response the Government should address the impact that the level of business rates has on the attractiveness of the UK as a destination for investment. It should also address the impact on business directly; in this respect we note, in particular, that profitability or cash flow is not a factor in determining business rates liability.**

37 Organisations include: Blake Penfold (IBR0027); British Retail Consortium (IBR0057), The Clubhouse London Limited (IBR0063); GL Hearn Limited (IBR0062); North East Lincolnshire Council (IBR0052), Royal Institution of Chartered Surveyors (IBR0075); Save UK Pubs (IBR0118), UK Cinema Association (IBR0086); Walgreens Boots Alliance (IBR0120), and Woodhaven Trust (IBR0043).

38 Q388

39 Q612

40 Institute of Directors (IBR0040)

41 The Clubhouse London Limited (IBR0063)

44. **Business rates have become an increasingly significant proportion of the total taxes borne by business. In response to this report HM Treasury must explain whether it is deliberate government policy to rebalance business taxes in this way and, if so, what this policy decision is intended to achieve.**

2 Complexity of the current system

45. A number of organisations[42] told us that the business rates system is more complicated than it needs to be. For example, the Royal Institution of Chartered Surveyors said that "English businesses are hampered by an onerous and complicated process."[43] The three main reasons given in evidence to this inquiry for the complexity of the system were reliefs, the Check Challenge Appeal (CCA) process, and the basis for valuation. We consider each in turn, including whether HM Revenue and Customs programme "Making Tax Digital" has a role to play in making the business rates process easier for ratepayers. We also consider the effect that spending on property improvement or new plant and machinery has on the level of business rates that a business has to pay.

Reliefs

46. The system has been made more complex by the introduction of a series of reliefs which allow businesses that meet specific criteria to obtain discounts to their business rates liability. Some reliefs are automatic, others must be applied for, some are permanent while others are temporary. We note that whether or not the reliefs are applied automatically or whether a business has to apply for them, can be at the discretion of each individual billing authority.

47. Current reliefs include:

- charitable rate relief;
- enterprise zones;
- exempted building and empty buildings;
- hardship relief;
- retail discount;
- rural relief;
- small business rate relief; and
- transitional relief (this phases in changes to a rates bill gradually by limiting how much a bill can change each year as a result of revaluation).[44]

48. Revo, a not-for-profit organisation representing the retail property and placemaking industry, said that the current reliefs system has made it "difficult for a business–especially SMEs without in-house rates expertise–to know which, if any relief, it is entitled to."[45]

49. A further level of complexity is added to the relief system by European Union state aid restrictions. These cap the total sum of discretionary money a company can receive

42 Organisations include: The Bath Pub Company Ltd (IBR0117), Blake Penfold (IBR0027) CBI (IBR0100), Energy and Utilities Alliance (IBR0029), Gerald Eve LLP (IBR0013), R3Intelligence/ Northumbria University (IBR0103), Storengy UK (IBR0016), and Unibail-Rodamco-Westfield (IBR0085).

43 Royal Institution of Chartered Surveyors (IBR0075)

44 Gov.uk, 'Business rates relief', accessed 8 July 2019.

45 Revo (IBR0096)

from a rate relief scheme at €200,000 over a three-year period.[46] Virgin Media told us this has meant that many larger businesses have either had little or no benefit from the available reliefs.[47]

50. Tom Emlyn Jones, President of the Rating Surveyors Association questioned the fairness of reliefs:

> I would encourage you to row back on reliefs. They are sticking plasters because the rates are high and one person's relief is fair for them but it means that it is unfair for everybody else. I happened to make a note of requests for further reliefs in the representations you have had, including pharmacy relief,[48] grassroots music venue relief,[49] ecological credits,[50] bookshop relief,[51] open workspace relief[52] and so on. I could go on. My point is that, if you open the door to reliefs, everybody will be saying, "Can I have a bit of that?"[53]

51. **The number of reliefs that are needed for business rates to work indicate a broken system. Each additional relief adds a further layer of bureaucracy to an already complex system. HM Treasury should review all business rate reliefs to ensure that they remain necessary. We discuss later the extent to which business rates align with government policy to encourage investment. We note that the system of reliefs have a part to play in this.**

Administration of reliefs by billing authorities

52. Billing authorities collect council tax and business rates on behalf of Local Authorities. There are 361 billing authorities in England[54] recognised by the Valuation Tribunal Service, and 343 local councils, or local authorities, in England.[55] We heard evidence that authorities do not take a consistent approach to business rates reliefs.

53. Evidence submitted by the National Federation of Retail Newsagents questioned how fairly reliefs are applied by local authorities and said that "the tax relief system should be consistent across local authorities to avoid disparities".[56]

54. The British Retail Consortium, a retail trade association, raised concerns over "the number [of reliefs] and inconsistent application of reliefs [which] makes the system very hard to navigate, even, and perhaps more so, for larger businesses due to the number of local authorities in which they operate".[57]

46 Virgin Media Limited (IBR0113)
47 Virgin Media Limited (IBR0113)
48 The Company Chemists' Association Ltd (IBR0083)
49 UK Music (IBR0041)
50 Institute of Revenues, Rating and Valuation (IBR0109)
51 Learn Tuition Centre Limited (IBR0006)
52 The Clubhouse London Limited (IBR0063)
53 Q29–30
54 Valuation Tribunal Service, 'Billing authorities', accessed 29 July 2019
55 Local Government Association, 'Who we are and what we do', accessed 29 July 2019
56 National Federation of Retail Newsagents (IBR0026)
57 British Retail Consortium (IBR0057)

55. Multi-site operators, such as the National Trust, drew our attention to inconsistencies in how billing authorities are operating and presenting bills to businesses. In its submission it wrote:

> We receive almost 1,000 individual bills from most of the Local Authorities throughout England and Wales. These bills are inconsistent, presented differently and some provide inadequate information. Similarly, the forms, for example regarding charitable relief, are all different with some submitted online, others paper only; many ask irrelevant questions regarding discretionary relief when mandatory relief is the subject of the application.[58]

56. Given the reported inconsistencies in how reliefs operate between billing authorities, we asked the Local Government Association whether there was any requirement for billing authorities to actively tell a business that it might be eligible for reliefs. It told us it was not a billing authority's responsibility to do so:

> It is the job of the billing authority to work out and apply reliefs as part of its billing function. Some reliefs may be applied automatically, such as small business rates relief in many cases. It is then the responsibility of the ratepayer to check that they are in compliance with state aid regulations. Some other mandatory reliefs, such as charitable relief, may require the ratepayer to apply and to demonstrate that they meet all the conditions for the relief. Ratepayers are responsible for notifying any changes of circumstances affecting eligibility for reliefs to the billing authority.[59]

57. At our outreach event on 20 May 2019, we heard from one business which should have been entitled to Small Business Rates Relief but the Billing Authority had not applied the relief, nor did it tell the business of its eligibility. At the time of the event, that business was awaiting a refund for three years of business rates.[60]

58. We heard concerns that discretionary reliefs have been applied inconsistently by local authorities. The CBI wrote to the Committee about a leading logistics business that had been benefitting from empty property relief on a 500,000 square foot warehouse. Despite there being "multiple business requirements for a small percentage of the space" within the warehouse, the logistics company did not dare use any portion of the warehouse for fear of "the risk of triggering the full business rates liability." This risk was caused because, despite their local authority having the discretion to award "partly-occupied relief", the guidance on eligibility was so opaque that the company had no certainty over whether their application for that discretionary relief would be successful.[61]

59. **All 361 billing authorities have the autonomy to run their business rates system as they see fit. There is no obligation for billing authorities to help businesses understand the reliefs that they may be eligible for. There is no requirement for billing authorities to be consistent in whether reliefs are applied automatically or not.**

60. **The Ministry for Housing, Communities and Local Government (MHCLG) should work with all billing authorities to create a single comprehensive guide on how**

58 The National Trust (IBR0048)
59 Local Government Association (IBR0136)
60 Treasury Committee (IBR0135)
61 CBI (IBR0100)

business rate reliefs are operated by the individual billing authorities. This would result in consistency in approach by all billing authorities. It would also provide clarity for business on what discretionary reliefs they may be eligible for, and what steps must be taken to claim them.

Transitional relief

61. When a revaluation occurs, the rateable values for many properties will change significantly resulting in a significant change in their business rates liability. Transitional relief was introduced to limit, cap, or delay the potential increase or decrease in the business rate liability that a business would otherwise have faced as a result of a significant change in its properties' rateable values. Upward transitional relief exists to limit the speed at which a bill can increase, and downward transitional relief limits the speed at which a bill can decrease.

62. The reason for both upward and downward transitional adjustments is to ensure that revaluations are fiscally neutral to the Exchequer. The limits on the percentage increase or decrease in a business rate liability are based on the overall rateable value of the property. The phasing arrangements brought in with the 2017 revaluation are outlined in the following tables, which show that properties with the smallest rateable values benefit from the smallest percentage increase in their bill when the rateable value goes up, and the largest percentage decrease in their bill when the rateable value goes down.

Table 1: If your bill is increasing

Rateable value	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
Up to £20,000 (£28,000 in London)	5%	7.5%	10%	15%	15%
£20,001 (£28,001 in London) to £99,999	12.5%	17.5%	20%	25%	25%
Over £100,000	42%	32%	49%	16%	6%

Table 2: If your bill is decreasing

Rateable value	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
Up to £20,000 (£28,000 in London)	20%	30%	35%	55%	55%
£20,001 (£28,001 in London) to £99,999	10%	15%	20%	25%	25%
Over £100,000	4.1%	4.6%	5.9%	5.8%	4.8%

Source: Gov.uk[62]

63. A significant problem with downwards transitional relief for business at present is that the 2010 rating list was based on pre-financial crisis rental market data, when rental prices were significantly higher.[63] When the 2017 rating list was brought in, some businesses and sectors saw a significant decrease in rateable values. However, for many businesses, due to downwards transitional relief, the benefits of having properties with lower rateable values, and the lower business rates that come with them, have not been passed on in full.

62 Gov.uk, 'Business rates relief: Transitional relief', accessed 9 July 2019
63 Gov.uk, 'Written statement to Parliament: Business rates', accessed 23 August 2019

64. River Island, a fashion retailer, told us in its written evidence that “downwards transition ensures that there are many cases where retailers will never pay the true rates liability for their premises”.[64]

65. The issues with transitional relief are exacerbated by the effects of inflation. Blake Penfold explained how inflation affects downward transitional relief:

> In [2017–18], the maximum reduction of 4.1 per cent was offset by a 2 per cent inflation increase, thereby representing a net maximum reduction of 2.1 per cent. In [2018–19], the maximum reduction of 4.6 per cent was offset by a 3 per cent inflation increase, thereby representing a net maximum reduction of 1.6 per cent. The effect of this transitional scheme is such that larger properties, which should be seeing significant reductions in rates liability, will not benefit from those reductions during the life of the 2017 rating list.[65]

66. CBRE, an international commercial real estate company, was concerned that downward transitional relief could undermine the Government’s attempts to revitalise the High Street as it “forces struggling ratepayers to subsidise those whose businesses are thriving” and that “downwards transition is thus at cross purposes with regeneration objectives”.[66]

67. Concerns around the effect of downward transitional relief on business are not limited to the High Street. Catherine Gras, Chief Executive of Storengy, a gas storage company, told us that:

> We got a 60 per cent reduction in the rateable value, but we will never see the benefit of it in this valuation period. We are seeing something like -3 per cent. We are still paying more than double what we should be paying because of the transitional relief downward […] In 18 years, if nothing changes, which is of course not the reality, we will finally be back to the right level of valuation.[67]

68. Further concerns were raised around the speed at which the new transitional relief timescales were introduced for the 2017 rating list. In oral evidence Kate Nicholls, Chief Executive of UKHospitality, a hospitality trade association, said that “businesses only had about four months’ notice” to react to the two-year transitional relief period, rather than the five year period that had previously been in use. Only having four months to prepare for this policy change put pressure on business cashflows.[68]

69. **We recognise that transitional relief exists to minimise the movements in any particular year that result from changes in valuation, and that many businesses will have benefited from such relief. However, the decrease in open market rental valuations in the 2017 rating list needs to be reflected more quickly in rates bills for those businesses who are paying significantly higher rates than the open market rental value of their properties would normally determine. The current transitional relief**

64 River Island Clothing Company Ltd (For and on behalf of the Retailers Rates Action Group) (IBR0032)
65 Blake Penfold (IBR0027)
66 CBRE Limited (IBR0076)
67 Q216–217
68 Q83

system has kept rate bills artificially high over a prolonged period for many businesses.

70. **We recommend that transitional relief is redesigned to ensure that before the end of a rating list, businesses can complete the transition, upward or downward, to their correct rateable value. By the end of the rating list's life, all business rates liabilities should represent the period's rating list value, adjusted for inflation. This will mean that for the next rating list, there would not be any need for transitional relief related to the previous rating list's values.**

Alignment with central government policy

71. Many witnesses were concerned that the current business rates system is at odds with wider central government policy. For example, the National Farmers' Union (NFU) and Vtesse Harlow Limited, a telecommunications company, noted that while the Government is looking to increase the use of renewable energy sources[69] like solar power business rate policy immediately penalises investment in this area. Vtesse Harlow told us that:

> The VOA introduced business rates on solar panels on schools and larger instalments. This has had a chilling effect on further investment in renewables which has exacerbated the effect of falling tariff rates.[70]

72. Virgin Media said it had experienced a "dramatic increase in business rates liability since 2017" for its telecommunication network, which was undermining the "Government's priority […] of having ten million premises connected to full fibre and a clear path to national coverage over the next decade".[71]

Incentives to invest

73. We were asked by organisations[72] like the British Beer and Pub Association, a brewers and pub membership organisation, to support the introduction of an investment relief. They said that:

> Investment is the lifeblood of pubs which need to evolve to meet changing consumer demand. Up to £1.5 billion is invested in Britain's pubs each year. Pubs are almost uniquely valued on the basis of turnover and this can be a significant disincentive to investment. Investment in pubs almost certainly leads to an immediate revaluation based on a presumption of increased turnover. However, any increased profitability and return on investment will inevitably be realised over a longer period. [73]

74. The Woodhaven Trust, advocates for land tax reform, observed that the current system acts as a disincentive to investment, which can adversely impact wider government policies such as lowering the UK's carbon emissions. They said:

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69 Department for Business, Energy & Industrial Strategy, 'The UK's draft integrated national energy and climate plan (NECP', accessed 30 July 2019

70 Vtesse Harlow Limited (IBR0082)

71 Virgin Media Limited (IBR0113)

72 Organisations include: Energy and Utilities Alliance (IBR0029);Federation of Small Businesses (IBR0042); Institute of Directors (IBR0040); Love Wimbledon BID Ltd (IBR0037); and The National Trust (IBR0048); British Beer and Pub Association (IBR0028)

73 British Beer and Pub Association (IBR0028)

> At the crux of the matter is the fact that they are a tax on long-term investment; if a new building, dam, or blast furnace is built, recurring tax is paid on that investment. And if an existing property is improved through the addition of a lift, solar panels, or air conditioning, its tax bill increases. While it is reasonable to tax the increased profits that investment may lead to, it is not reasonable to tax investment itself.[74]

75. The Energy and Utilities Alliance, a not-for-profit trade association in the energy sector, told us that "Gas storage operators and developers are currently considering various projects producing and storing hydrogen, a zero-carbon solution that could become a serious option to decarbonise the UK economy in the future." However, as this would necessitate "pilot projects" to establish if they are viable and given the immediate impact on business rates, there is concern about whether these projects are viable. They went on to say that:

> In the current context, it is likely that these projects will be taxed using the contractors' basis. Using the contractors' basis will certainly increase the hurdle for such projects to be launched.[75]

76. The Valuation Tribunal Service describes the contractors' basis as "a method of valuing a property for rating purposes which looks at the cost of replacing the building and then analyses this cost into an annual amount over a certain period".[76] They explain that it is used in circumstances where there is no relevant rental information available that can be used to value the property.

77. Scotland introduced a 'business growth accelerator' relief[77] to support investment. This relief is designed to provide a twelve-month respite between completion of a new property and the associated business rates bill. The relief also means no business rates are levied on a new property until it is occupied and provides a twelve-month respite from any business rate bill increase when a business expands or improves the property. This means that when a business makes a capital investment, it has twelve-months to benefit from the investment before its rates bill increases.

78. Several organisations[78] have championed the introduction of a similar system for England. For example, Unibail-Rodamco-Westfields, specialists in owning, developing and managing premier retail assets, told us that the Government should look to introduce a "Business Growth Accelerator". They told us that the introduction of such an accelerator would "support and incentivise investment in all sectors so as to provide a level playing field."[79]

79. Rachel Kelly, Senior Policy Officer at the British Property Federation, was supportive of the concept but advised caution around the incentives available for new developments. She told us that if such a relief were introduced for England, care would need to be

74 Woodhaven Trust (IBR0043)
75 Energy and Utilities Alliance (IBR0029)
76 Valuation Tribunal Service, Jargon Buster accessed 17 October 2019
77 Mygov.Scot, 'Business rates relief: business growth accelerator', accessed 12 August 2019
78 Organisations that include: Accessible Retail (IBR0038); Association of Convenience Stores (IBR0064); British Retail Consortium (IBR0057); British Beer and Pub Association (IBR0028); Camden Town Unlimited (IBR0070); CBI (IBR0100); CBRE Limited (IBR0076); and Historic Houses (IBR0060); Unibail-Rodamco-Westfield (IBR0085).
79 Unibail-Rodamco-Westfield (IBR0085)

taken around implementation. She warned that that it should not “over-incentivise new development” but balance the relief to support the “maintenance of and improvements to our existing property stock.”[80]

80. We asked whether 12-months was an appropriate level of time for this relief. Catherine Gras, Chief Executive of Storengy, a gas storage company, said that “when you are talking about investments that you expect the payback to be over about 25 years or 30 years, okay, 12 months is better than nothing.”[81]

81. We raised with Jesse Norman MP, Financial Secretary to the Treasury, concerns around the disincentives to investment. He told us that “there are disincentives and incentives involved across the whole sweep of Government support for investment in green energy.”[82] He went on to say that he “used to be a Transport Minister and we have introduced enormous support for electric vehicles and for offshore wind. This is a very green economy.”[83]

82. **The current approach to business rates acts as an immediate significant disincentive to investment. Such an approach contradicts wider government policies such as reducing the UK’s carbon emissions through investment in greener technologies or improving productivity.**

83. **HM Treasury needs to revise the business rates system and implement change to support and encourage investment by businesses. When considering the reforms necessary to achieve these changes, HM Treasury may wish to consider lessons learnt by devolved nations when they have made similar adjustments to their business rates system.**

Assets included within business rates valuations

84. Rateable values are established by the VOA, who use the Rating Manual[84] as its guide. Part 5 of Section 6 of that manual[85] sets out the various classes of plant and machinery that are included in the business rates calculation. Roughly speaking, the plant and machinery that is included in the valuations are part of the property in question, and not easily removable. The CBI told us that the scope of what should be included “was last reviewed in 1993.”[86] Groupe PSA, the second largest car manufacture in Europe, told us that despite this review in 1993, the data used is “ based on a regime dating back to the 1960’s.”[87]

85. When these categories were introduced, and last reviewed, the plant and machinery critical to running a business were very different to the modern economy. In the modern business world, business critical systems include items such as IT systems, which are not included in the rateable value calculation. This has led organisations like Make UK, a membership organisation that provides of political representation for the engineering, manufacturing and technology sectors to call for the same treatment for plant and

80 Q367
81 Q212
82 Q621
83 Q622
84 Gov.uk, ‘The Rating Manual, accessed 30 August 2019’
85 Gov.uk, ‘Rating Manual section 6: valuation practice’, accessed 13 August 2019
86 CBI (IBR0100)
87 Groupe PSA (IBR0078)

machinery. They told us that the current system is unfair to the manufacturing sector and called for "the removal of plant and machinery from business rates as it acts as a disincentive for manufacturers to invest."[88]

86. The CBI also took the view that the current scope of plant and machinery included in the business rates valuation is not fit for the modern economy. They cited the following example to illustrate their point:

> Energy efficient investments will increase a property's rateable value and therefore the business rates bill, which could discourage that investment from taking place. This is inconsistent with the Government's initiatives on energy efficiency and climate change. Similarly, the Government has set out ambitious goals to improve UK digital connectivity, which is contrary to a rates system which raises rateable liability for full fibre networks in the long term. This short-term relief […] is inadequate to address the structural problems with the business rates system.[89]

87. Groupe PSA told us that they advocate the removal of plant and machinery from rateable value because:

> The inclusion of such assets in the rateable value increases the cost of investing in energy saving equipment or improvements and new plant and machinery, be that to enhance productivity or to satisfy regulatory requirements. Removing them from the rateable value calculation will also remove the distortion between different forms of business–as some businesses' equipment will form part of the Business Rates base whereas other equipment is completely exempt from (not being fixed to or built into the facility).[90]

88. Make UK also told us that the inclusion of plant and machinery in the business rates calculation is also a disincentive to growth. They said:

> A survey of Make UK members revealed 42 per cent would invest more if plant and machinery were removed from the business rates calculation. For an R&D intensive sector such as manufacturing, investments in plant and machinery are essential not only to able to manufacture day-to-day products, but also to be able to continue to produce new and innovative developments that are crucial to long-term business, as well as economic, growth.[91]

89. We raised their concerns over the inconsistency between how rateable value is calculated for businesses with plant and machinery covered by the Rating Manual definition, and those without, with Ministers. When asked by the Committee if he recognised the inconsistency, Jesse Norman MP, Financial Secretary to Treasury, he responded saying " Yes. That is interesting, thank you."[92]

88 Make UK (IBR0128)
89 CBI (IBR0100)
90 Groupe PSA (IBR0078)
91 Make UK (IBR0128)
92 Q604

90. Mike Williams, Director Business and International Tax at HM Treasury, told us that “There is advantage in sticking with the legal definition, broadly, of what you take with you and what you could leave behind, because I think you get clarity from that.”[93]

91. When the Committee asked Mr. Williams if that meant the definitions were kept under active rather than passive review, he responded that “We are getting court cases that produce new patterns against which that definition is applied. We then monitor whether the result in policy terms from those court decisions seems satisfactory.”[94]

92. **The Government needs to ensure that business rates align with its aim to boost productivity and do not undermine its intentions to encourage businesses to invest in energy efficient technologies and better data connectivity.**

93. **The classes of plant and machinery that are included in the business rates calculation were last re-defined in 1993, when the UK economy operated very differently. Many modern businesses have moved away from being dependent on plant and machinery. It is therefore unfair on the manufacturing sector for their business rates valuation to include their essential operating equipment, where other businesses are not equally affected.**

94. **The Government should look at where case law currently stands on what assets are included in rateable values and should consider whether legislation is required to ensure the categories are fit for the modern economy. If it is the Government’s stated aim to incentivise the transition to a green economy, it should be proactive in ensuring that businesses that invest in green assets such as solar panels or energy efficient machinery are not subjected to higher business rates as a result.**

95. **HM Treasury must keep the definition of what is included in a rateable value up-to-date and ensure that that definition supports wider government targets to support business growth.**

Check Challenge Appeal (CCA)

96. Alongside the 2017 valuation listing, the VOA introduced a new business rates appeal system for England called “Check Challenge Appeal” (CCA). Melissa Tatton, Chief Executive of the VOA, told us that a new system was introduced to reduce the number of speculative appeals being made because under the old system “it was possible to put in a speculative appeal with little or no evidence.”[95] This resulted in “approximately 1.1 million appeals made in England and Wales over the life of the 2010 list […] and 70 per cent of them resulted in no change”.[96] The VOA told the Committee that there were around 2 million assessments in the 2010 rating list for England and Wales. Under the old appeal system, an assessment could be subject to duplicate and sometimes multiple appeals made on different grounds, some of which were purely speculative and backed up with little or no evidence.[97] This created an unprecedented workload for the VOA. The new system was designed to require the ratepayer to supply more detailed evidence in order to contest a valuation.

93 Q604
94 Q605
95 Q443
96 Q444
97 Letter from Chief Executive of the Valuation Office Agency to Chair, relating to Committee inquiry the impact of business rates on business - dated 21 June 2019

97. CCA has introduced a three-stage process where a business can carry out the following tasks through the VOA's online portal:

- register to use the service;
- claim properties belonging to the organisation;
- appoint an agent to act on the business' behalf;
- view basis of the property's valuation;
- check the details and use the portal to notify the VOA of any changes to the property that could affect valuation; and
- challenge the valuation if any issues have not been resolved through the Check stage.[98]

98. If a business is not able to reach a satisfactory resolution through Check and Challenge, it can proceed to the appeal stage which is then administered by the Valuation Tribunal for England.

Box 3: Timeframe for Check Challenge Appeal

Source: Treasury Committee

99. **The VOA's previous appeals system needed to be replaced. It made it too easy for businesses to make speculative appeals and created an unsustainable workload for the VOA.**

Response times

100. We heard concerns from businesses, both large and small, about the speed of response from the VOA, as well as the time it takes to progress a case through Check Challenge Appeal (CCA). Under the CCA process a business must complete a Check and a Challenge before it can move to the Appeal stage, something the legacy system did not require.

98 Gov.uk, 'How to check and challenge your rateable value', accessed 15 July 2019

101. The current timescale for a Check Challenge and Appeal is as follows:

(1) Once a business has registered on the system it can take a maximum of 15 working days for a claimed property to be approved.

(2) A business can then request valuation details which can take a maximum of 20 working days.

(3) Once a Check has been made, a business can only proceed to a challenge once it has received a response from the VOA or a maximum of 12 months have elapsed.

(4) Once a Challenge has been made the VOA has 18 months in which to respond before a business can proceed to an Appeal.[99]

(5) This can mean that in extreme cases, a business could "potentially wait 950 days before it can lodge an appeal against its rateable value".[100]

102. The current response timescales for the Check and Challenge and Appeal process were introduced by secondary legislation, under Section 143 of the Local Government Finance Act 1988.[101] The Act allowed for them to be introduced by the 'negative resolution' procedure, which effectively meant they were never debated in the House of Commons.

103. The VOA told us that as at 31 March 2019, 16,000 appeals remained outstanding from the 1.1 million appeals made to the 2010 listing, of which 320 relate to appeals before March 2013, and 7000 relate to appeals between April 2013 and March 2016.[102] The VOA told us that they were "on track to meet [their] commitment of clearing [the legacy appeals] by September 2019."[103]

104. The VOA told us that "In 2018–19, [it] achieved 79 per cent of checks within three months" against its target of 90 per cent, and that in the first quarter of 2019–20, it had "gone up". With Challenges, the VOA said it had experienced "quite low volumes" with "81 of [the] challenges resolved within the 12-month period.[104]

105. The VOA were not able to able to tell us what they thought a speedier and more reasonable response timeframe would be for completing Checks or Challenges, but did say that any revisions to the existing timescales would need to "take into account are resourcing, funding, IT and data."[105]

106. The National Hairdressers Federation, a trade association for hairdressing, barbering and beauty salon owners, raised concerns that the long responses times experienced with CCA had a negative impact on businesses having confidence that their bills are "fair and accurate".[106]

99 Gov.uk, 'Guidance - How to check and challenge your rateable value - A guide to the new business rates appeal process from 1 April 2017', accessed 30 August 2019
100 Q460
101 Legislation.go.uk, Local Government Finance Act 1988, accessed 10 October 2019
102 Letter from Chief Executive of the Valuation Office Agency to Chair, relating to Committee inquiry the impact of business rates on business - dated 21 June 2019
103 Q444
104 Q465
105 Q469
106 National Hairdressers Federation (IBR0012)

107. Ojay McDonald, Chief Executive of the Association of Town and City Management, a not-for-profit membership organisation to support healthy high streets, told us that he "would not be surprised if a number of businesses that are not with us any more should have had something from the appeals system but just did not get it in time".[107]

108. We asked the VOA whether there was anything they could do to help businesses experiencing financial hardship. The VOA told us that:

> There is already a process for those suffering financial hardship, which we prioritise. If a particular business is suffering financial hardship and thinks its rateable value is wrong, it needs to let us know about that […] We will prioritise those cases. We try to turn those around within two months.[108]

109. We received evidence from Jolly Jumpers Play Zone, a children's soft play area, that would appear to contradict this timeline. They told us that:

> With the extortionate business rates, I feel that we will have to close within the near future, with a loss of the facility to the local community and visitors to the area. This has been pointed out to the VOA several times, and despite assurances that our case would be treated as urgent, we are now almost 2 year in and not really got any further to resolving the matter.[109]

110. We also received evidence from Newcastle City Council which stated that appeals are "a huge risk for Councils".[110] If a property is subject to an appeal it creates uncertainty for a local authority as to whether it will receive the full business rates for that property or not. The longer the appeals process, the longer the uncertainty.

111. **It is unacceptable that there are still appeals outstanding from the 2010 listing, years after the appeals were first raised. The VOA must resolve these appeals as a matter of urgency. Such long delays bring the work of the VOA into disrepute and undermine trust in the UK tax system. No business should be waiting for over two years into the next rating list for their checks or challenges from the previous rating list to be resolved.**

112. **The current statutory response times are too generous. No business should have to wait up to two and half years for their appeal to conclude. We recommend that the Government introduces new secondary legislation under Section 143 of the Local Government Finance Act 1988 to reduce the statutory limit for both Checks and Challenges to a more reasonable timeframe, preferably a maximum of six months each.**

Transparency

113. Concerns were raised around how the new CCA process was structured, and about a lack of transparency from the VOA, which made it difficult for businesses to contest their rating. The Altus Group, a provider of independent advisory services, software and data solutions to the global commercial real estate industry, told the Committee that:

107 Q296
108 Q470–473
109 Jolly Jumpers Play Zone (IBR0015)
110 Newcastle City Council (IBR0110)

> The new appeal system, Check Challenge Appeal, lacks transparency: It places no obligations on the VOA to explain how a rateable value has been set and puts the onus entirely on the ratepayer to prove they have been over-assessed. Few ratepayers have access to the evidence to understand their rateable value. The VOA is under no obligation to provide it before the appeal stage, which might follow years of financial hardship for a business. If we want a responsive and efficient appeals system, the ratepayer should be provided with the evidence used at the initial 'check' stage. The VOA only provides information at present if it considers it reasonable to do so.[111]

114. Accessible Retail, a representative trade body for retail warehouse and retail park, expanded on these concerns saying "the new CCA system lacks transparency and the process requirements imposed are posing a significant impediment on appellants from effectively claiming properties [the process of designating a property as belonging to your business] and their agents from reviewing the assessments and suggesting changes. All this is a prerequisite to the submission of a formal Challenge". The Altus Group said that the online portal was "not fit for purpose" which "amounts to being denied access to justice by unduly onerous, laborious and burdensome procedures."[112]

115. A variety of organisations, including both individual businesses and local authorities criticised a lack of transparency around the basis for valuations.[113] One example came from the British Property Federation which said that:

> The valuation process is not transparent which leads to a greater number of appeals and general uncertainty. CCA has not helped provide transparency and has put undue pressure on business.[114]

116. When we raised concerns about transparency with the Chief Executive of the VOA, she disagreed it was an issue. She told us that "there is a frank disclosure on both sides, including the agency, of the evidence" and that the VOA "are providing more information at an earlier stage under CCA than we would have done under the 2010 appeals".[115]

117. The VOA told us that they need to abide by the Commissioners for Revenue and Customs Act 2005.[116] They explained that the legislation requires the VOA to make sure that any provision of information is necessary, relevant and proportionate to their function. They do not consider that confidential rental evidence meets that legal requirement.[117]

118. We asked the VOA if one of the drivers behind the current approach to transparency was the property industry's desire to avoid the public sharing of their rents and leases data. Alan Colston, Chief Valuer at the VOA, confirmed that for "certain elements" this was correct.[118]

111 Altus Group (IBR0094)
112 Accessible Retail (IBR0038)
113 Other organisations who raised transparency concerns include: British BIDs (IBR0093); British Chambers of Commerce (IBR0099), CBI (IBR0100), North Norfolk District Council (IBR0089), Pubs Advisory Service Ltd (IBR0107), Revo (IBR0096), Walgreens Boots Alliance (IBR0120) and Virgin Media Limited (IBR0113)
114 British Property Federation (IBR0088)
115 Q488
116 Q494
117 Q494
118 Q495–496

119. Subsequently to Mr. Colston's statement, we received supplementary evidence from Revo contradicting this view:

> We believe [with] positive reforms such as adopting annual revaluations at the earliest opportunity with transparency such that the VOA justified its assessments to ratepayers by supplying the underlying rental evidence, appeals would fall away dramatically and become the exception not the rule as ratepayers would be satisfied with the explanation supplied to them and would not see any need to challenge their valuations or the benefit of a successful appeal would lead to a saving in rates payable for one year only.[119]

120. We raised the concerns around the transparency of the CCA process with Ministers. Rishi Sunak, the Minister for Local Government, told us that he felt that VOA had a balanced approach between providing users with information and protecting the confidentiality of other ratepayers' rental values:

> What you will hear as a criticism is, "We get into this check, challenge process and we have to show all our cards, and the VOA doesn't have to show theirs." […] Having looked into it, I think that is slightly unfair. If you submit a check, you get the information on how the valuation of your property was done and which bits were done in which particular way—the methodology for it. You might not get the exact rent that they have used from the building opposite or whatever it is. The reason for that is they obviously have a broader duty, which might well be to speak to HMRC and so forth about taxpayer confidentiality and ensure that it is proportionate. As you get further down the process, they share more information. What they cannot do at the appeal stage is rely on a piece of information that they have not previously shared with you.[120]

121. Other countries have taken a different approach to addressing the call for increased transparency from their ratepayers. Jerry Schurder, Head of Business Rates at Gerald Eve LLP, highlighted two alternative methodologies that could be used:

> There are two ways of ensuring that a business can be satisfied that its valuations are fair and accurate.
>
> In Johannesburg, the ratepayer can click and see the primary evidence used, and he can click again if he wants to see the secondary evidence that underlies those valuations. There are countries where much greater data is available.
>
> The alternative is to follow the Republic of Ireland's route, where there is a public lease register, and absolutely every single element of information about a lease is available in the public domain.[121]

122. **The VOA considers the level of information it is providing to ratepayers is sufficiently transparent. However, the evidence we received from business ratepayers, across a variety of sectors, shows that many businesses do not agree. The VOA has a**

119 Revo (IBR0096)
120 Q631
121 Q377

duty to maintain trust and confidence in its appeals process. Where there is a legislative block on providing a ratepayer with all relevant evidence used to establish a property valuation, the VOA must ensure the ratepayer understands the reasons why such evidence is being withheld. The VOA should also monitor and report to us annually how often it denies transparency requests.

Functionality and ease of use of Check Challenge Appeal interface

123. The VOA was designing the new CCA process, and the timeline for its implementation, while the Government was signalling its intent to reduce the number of small businesses that would need to engage with the system.[122] The Government indicated this intent through three successive Budgets and Fiscal Statements which reduced the number of small, single-site businesses that would have to pay business rates. These were as follows:

- Budget 2016: Permanently doubled Small Business Rate Relief (SBRR) from 50 per cent to 100 per cent; and increased the SBRR relief threshold from £6,000 to £12,000, with tapering to £15,000.[123]
- Autumn Statement 2016: Increased rural rate relief from 50 per cent to 100 per cent.[124]
- Spring Budget 2017: Introduced support for small businesses losing their SBRR to limit increases in their bills to the greater of £600 or real terms transitional relief cap; and £1,000 business rates discount for public houses with a rateable value up to £100,000.[125]

124. Alan Colston, Chief Valuer of the VOA, told us that when the CCA process was launched on 1 April 2017, it was "an individual system [whereby] you had to individually check and challenge. It was functional and live, and it was tested, but [the VOA] have improved it substantially for large ratepayers and their advisers over the last 12 months."[126]

125. The CCA system has been in existence for just over two and half years. During that time the system has remained in 'beta' mode. The VOA told us that this is so that it can "continue to look at other opportunities",[127] rather than the system still being in its trial phase.

126. Whilst noting that the VOA has introduced additional functionality since the system went live, we were told that the VOA's approach had undermined business' faith in CCA. Gerald Eve LLP listed a number of problems it had identified with the CCA portal. These included:

- Major operational difficulties caused by the system being brought out in beta mode before it was sufficiently functional. The absence of a facility for agents or ratepayers with multiple properties to download information in a format that they could hold on a central database.

122 Gov.uk, 'Consultation outcome - Reforming business rates appeals: draft regulations', accessed 27 August 2019
123 Gov.uk, 'Budget 2016', accessed 16 July 2019
124 Gov.uk, 'Autumn statement 2016', accessed 16 July 2019
125 Gov.uk, 'Spring budget 2017', accessed 16 July 2019
126 Q523
127 Q518

- Delays in the development of a means for agents or multisite ratepayers to communicate electronically with the VOA systems through an Application Programming Interface (API) rather than using manual "one at a time" processes required by the VOA portal.[128]

127. In Wales, the VOA allows a business to complete a single 'Authorising your agent' form[129], allowing a business to authorise an agent for multiple properties. Mr. Colston told us that the Welsh system was based on the same system used for the 2010 list.[130]

128. In response to our questions about how the VOA was addressing the functionality gaps within CCA, the VOA told us that in its May 2018 improvement plan, the VOA aimed to allow business to "create multiple property links through an API"[131] as one of its key features. However, in the evidence mentioned above, witnesses told us that the API was not yet "fully operational in the Live environment".[132]

129. Before its implementation of CCA, the VOA held a consultation to explore whether the proposed system would be suitable from a business perspective. Following a Freedom of Information request, it was reported that of the "287 responses to the consultation, not a single company, trade organisation or individual wrote in support of the proposed system."[133] Following this consultation, the VOA implemented the proposed system albeit with some amendments to address the concerns of ratepayers.[134]

130. However, many witnesses criticised how intrinsically complicated the CCA process is to use. British BIDs[135], a membership organisation that provides advice, training and services to business improvement districts, said that businesses have "to pay for professional advisors to navigate the complex system [which] cannot be right."[136]

131. GL Hearn Limited, a property consultancy firm, told the Committee that "CCA is proving very difficult for ratepayers and their advisers to navigate. It is acting as a serious impediment to ratepayers being able to understand the evidence on which their [Rateable Value's (RVs)] were based at the revaluation, and an obstacle to any challenge to those RVs."[137]

132. When we asked the VOA whether an individual without any professional assistance would be able to navigate the system on their own, the VOA said that "it is quite possible, and people do so"[138] and that the summary valuation can be accessed online and would "provide the links to over 200 practice notes that explain [their] approach".[139]

128 Gerald Eve LLP (IBR0013)
129 Gov.uk, 'Authorising your agent', accessed 17 July 2019
130 Q516
131 Q517
132 Gerald Eve LLP (IBR0013)
133 Telegraph.co.uk, 'Government ignores concern about its overhaul of the business rates appeals system', accessed 17 July 2019.
134 Gov.uk, 'Department for Communities and Local Government - Check, Challenge, Appeal: Reforming business rates appeals - summary of consultation responses', accessed 29 August 2019
135 BIDs: Business Improvement Districts are geographical areas where local business have voted to pay an additional mandatory levy. This levy is used to provide additional, or improved services, in the local area which businesses have identified as being required.
136 British BIDs (IBR0093)
137 GL Hearn Limited (IBR0062)
138 Q489
139 Q457

133. We also received evidence from businesses contesting whether the information available and the functionality of the CCA portal were fit for purpose. John Lewis, a retail partnership with a chain of high street stores and other business properties, told us that it had taken them a year to register their business and properties onto CCA[140]. The VOA stated that they did "not recognise a year for registration", and qualified that saying that it was "probably that [John Lewis was] not yet using the application that [the VOA] launched, which includes the multiple property linking functions and the API[141] for check."[142]

134. In response John Lewis said that "it did take the Partnership over a year to complete the process of registering all of its properties on the system, primarily because registration is a very manual and time-consuming process which is not set up with companies with multiple properties in mind."[143]

135. **It is unacceptable to bring in a system that creates so many difficulties for ratepayers. The Check Challenge Appeal process should have been designed so that at its initial implementation in April 2017 it had more functionality than the system it was replacing. In particular, it should have been possible for businesses with multiple properties to authorise an agent to work on their behalf, as firms were able to do previously.**

136. **Bringing a new system online with less functionality than its predecessor has eroded public confidence. Whilst the VOA has improved the functionality of the system for multi-site and larger businesses since Check Challenge Appeal was introduced, these issues were known about before implementation. They should have been addressed before the system went live.**

137. **The overwhelming evidence is that the VOA's systems do not work for ratepayers with multiple properties. There continues to be a disconnect between how the VOA and the users of the Check Challenge Appeal view its ease of use and complexity. The VOA must make sure that ratepayers with multiple properties are able to use its systems easily and that its systems are not creating unnecessary additional bureaucracy.**

Making the most of 'Making Tax Digital'

138. HMRC's programme 'Making Tax Digital' is designed to make it easier for "individuals and businesses to get their tax right and keep on top of their affairs."[144] At present this programme is focussed on VAT and Income Tax. We have considered whether the programme should be extended to include business rates, which is not included in the programme at this stage.

139. The Institute for Directors told us that HMRC ought to extend its efforts around Making Tax Digital "to support firms to apply for reliefs, and allowances, as well as pay their business rates."[145]

140 Q161
141 API - Application Programme Interface
142 Q524
143 John Lewis Partnership (IBR0145)
144 Gov.uk, 'Overview of Making Tax Digital', accessed 12 August 2019
145 Institute of Directors (IBR0040)

140. The Institute of Chartered Accountants in England and Wales (ICAEW), a professional accountancy membership organisation, voiced the opinion that through using the Making Tax Digital platform, the Government could make better informed decisions about how to support the business rates system and the ratepayers. They said:

> The government should be able to collect more information about business activity through its making tax digital programme and should therefore have greater capabilities to assess where in the economy rates are a particular burden.[146]

141. River Island, a fashion retailer, suggested that the VOA could benefit from a "'trusted trader' or 'self-assessment system'" that would "improve accuracy and reduce the burden on the VOA"[147]. This idea was echoed by business rates consultants GL Hearn Limited, a property consultancy firm, who told us that such a system would "would allow ratepayers to amend the rating list themselves between revaluations. In essence, this would be a form of partial self-assessment, but with appropriate safeguards."[148]

142. Jerry Schurder, Head of Business Rates at Gerald Eve, an international property consultancy firm, told us that it was an idea "worthy of investigation" but also cautioned that there were associated risks. He provided the following example:

> Tesco would be a very good example of a business that could self-assess for business rates, because it has knowledge of the market in which it operates—it is a fairly tight market, in many cases—and it could therefore self-assess and be a trusted ratepayer. However, it may feel aggrieved if it discovers that Sainsbury's has declared a lower basis of valuation, which has been accepted because Sainsbury's is also trusted. That then becomes a race to the bottom, and at what stage will they no longer be trusted?[149]

143. **HM Treasury should work closely with the VOA and HMRC to develop a timetable to migrate business rates onto the 'Making Tax Digital' platform. The migration needs to learn from the lessons of bringing Check Challenge Appeal online ensuring that there is no loss of functionality with the transition.**

144. **Moving to the 'Making Tax Digital' platform would give the VOA the opportunity to revisit the issue of user authentication and to improve the verification process, for example through alignment of business rates with VAT returns. There may also be scope for further authentication in future as other business taxes are brought into the system.**

Basis for valuation

145. For various reasons, there are properties for which there is no open market rental value information available that could be used to determine a rateable value, for example an underground gas storage facility.[150] In these instances, the VOA uses alternative methods

146 ICAEW (IBR0080)
147 River Island Clothing Company Ltd (For and on behalf of the Retailers Rates Action Group) (IBR0032)
148 GL Hearn Limited (IBR0062)
149 Q378
150 Storengy UK (IBR0016) and the Energy and Utilities Alliance (IBR0029)

such as “the contractor’s basis of valuation”[151] to determine a rateable value based on a hypothetical calculation of, very broadly, how much it would cost to build a replacement of the building under consideration. This basis of valuation presents challenges because it requires valuers to apply their judgement to a hypothetical situation.

146. We received evidence from the Institute for Fiscal Studies stating that business rates themselves could change the rental basis for how a property is valued. They wrote:

> Economic theory predicts that, in the long run, (higher) business rates will mostly be reflected in (lower) rents, passing the burden of the tax from the occupiers of property to the owners. […] The need to pay business rates will reduce the amount that businesses are willing to pay to rent a property. […] In contrast, in the long run the owners of the property have little choice but to accept lower rent, as there is little else they can do with the property. […] If business rates weren’t there, the total cost of premises wouldn’t be much lower.[152]

147. However, we also heard that rents do not react to rates in a symmetrical way. Kate Nicholls, Chief Executive of UKHospitality, told us:

> There is a working assumption among MHCLG officials that if rateable values go up and rates go up, rents will come down. That bit is broken. […] I have had that come back to me as a, “If rates have gone up that significantly rents will undoubtedly come down because of that”. That is broken in our system for hospitality.[153]

Selected methodology

148. The Country Land and Business Association, a membership organisation of land, property and business owners, wrote to us stating that using the contractor’s basis resulted in the VOA using something akin to an income and expenditure basis which they saw as being “far less transparent for a ratepayer” and that “none of these [contractor basis] valuation methods are based on the actual performance of the business occupying the premises but of a hypothetical business occupying that property. Real business performance could be very different, and some valuation assumptions may not be appropriate in an individual case.”[154]

149. The Company Chemist Association, a trade association for large pharmacy operators in England, Scotland and Wales, raised concerns about the VOA using inconsistent valuation methodologies to value pharmacies. In its submission it wrote that for some pharmacies, who are co-located with a General Practice, their valuation has moved from per square foot to a “rate per patient”. This meant that “the more patients the doctors have on their list, the more the pharmacies pay, whether those patients use the pharmacy services or not”. Furthermore, for other co-located pharmacies, the VOA was using “goodwill” to value the premises and stated “there is no clear valuation methodology required by the VOA” for these pharmacies.[155]

151 Gov.uk, ‘Rating Manual Section 4 Part 3: valuation methods’, accessed 1 August 2019
152 Institute for Fiscal Studies (IBR0115)
153 Q87
154 Country Land and Business Association Ltd (CLA) (IBR0010)
155 The Company Chemists’ Association Ltd (IBR0083)

150. For the pub industry, Fair Maintainable Trade (FMT) is used as the basis for the valuation which means the rateable value is based on what 'trade' could be achieved in that premise by a reasonably efficient operator. We received representations from across the pub industry[156] that the valuation adjustment for a reasonably efficient operator is not being made. The British Beer and Pub Association, a brewers and pub membership organisation, summed the situation up by stating:

> In reality, the default position continues to be based on the latest annual accounts of actual turnover. Therefore, when a high-achieving operator takes an average pub and transforms this they are often heavily, and unfairly, penalised in terms of a large increase in business rates.[157]

151. The hospitality industry also raised concerns around the concept of a reasonably efficient operator. UKHospitality, a hospitality trade association, told us that:

> Hospitality is not an 'efficient' user of property. The experience of offering hospitality is such that people require space and a relaxing environment. Many businesses also cannot use their properties throughout the day, or even throughout the year, and therefore the property lays idle. Businesses have adapted and innovated to minimise these downtimes but they are a fact of life for many businesses. A tax based solely on property is therefore always going to disadvantage hospitality.[158]

152. The energy sector questioned whether its valuation methodology was appropriate. The Energy and Utilities Alliance, a not-for-profit trade association in the energy sector, expressed the view that using the contractor's basis for valuation was "not appropriate for industrial activities", while being "hard to understand and forecast for investors":

> The contractors' basis has been traditionally used by the VOA to assess gas storage assets […] There are no or very limited benchmarks in this sector and companies have struggled with the contractors' basis for years. Given there has been no new investment decisions since the financial crisis and that all companies have recognised in their financial statements significant drops in the value of their assets, it is complicated for them to understand how their assets are evaluated by the VOA and it is making it hard to contest the valuation and to forecast what companies would pay in the future […] The receipts and expenditures method provides a better tool to evaluate companies but is showing its limits when, as is the case with storage operators, the profitability is nil or below zero.[159]

153. We raised the variances in valuation methodology being used and the potential for the existing valuation methodologies to become outdated with the VOA, who said in response that its "role is in the valuing of the property, not the overall business rates system".[160]

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156 Those who have raised concerns around Fair Maintainable Trade valuations include: Barrels Public House Hereford (IBR0036); Brighton & Hove Licensees Association (IBR0119); British Institute of Innkeeping (IBR0056); Mr Paul Crossman (IBR0049); McCartan's Ltd (IBR0065); Pubs Advisory Service Ltd (IBR0107); and Save UK Pubs (IBR0118).

157 British Beer and Pub Association (IBR0028)

158 UKHospitality (IBR0077)

159 Energy and Utilities Alliance (IBR0029)

160 Q540

154. **Valuations do not always appear to use the most appropriate methodology or reflect changing business models. Businesses must be able to adapt to compete in the modern economy and good tax policy should be fair and coherent. The VOA must ensure that it is open-minded and prepared to revisit the traditional way that it values businesses to ensure that they take account of real-life modern business experience. We recommend that internal guidelines are reviewed to ensure staff take a flexible and responsive approach to valuation.**

Comparability of valuations

155. Businesses told us of disparities between the way in which the VOA values similar businesses. The Petrol Retailers Association & Car Wash Association, a membership organisation of independent fuel retailers and the self-regulating industry body for car washes, raised concerns that forecourt shops and convenience shops received different valuation methodologies:

> There is the major discrepancy between the fact that business rates are levied according to turnover for shops on petrol forecourts whereas rates for convenience stores are assessed by square feet. This means a convenience store can end up paying less than a similar shop on a petrol forecourt while having a far higher turnover. With margins on fuel significantly lower than non-fuel items, forecourts are having to broaden their offer to focus more on the shops on their sites, bringing them into direct competition with convenience stores and this disparity ensures a completely uneven playing field between the two.[161]

156. Flexible workspace provider Enterprise Nation told us that the VOA valued serviced offices and flexible offices on a different basis and argued that they should be valued using the same method.[162]

157. The Clubhouse, a flexible workspace provider, expanded on Enterprise Nation's concerns, when they told us that flexible workspace providers face further disadvantage because the individual operators within the workspace were not eligible for Small Business Rates Relief (SBRR) because "the operator does not have exclusive control" so there is "a single rating assessment" for the entire work space, and therefore, no entitlement.[163]

158. **It appears that the system permits significant discrepancies to exist in the valuations of seemingly similar businesses. We recommend that in its review of internal guidelines the VOA looks at how those discrepancies arise and whether there is scope to improve valuation methodologies so they lead to more consistent outcomes.**

Appropriateness of valuations

159. We received numerous written submissions from businesses expressing concerns about the basis of their valuations, and in particular, how difficult it was to persuade the VOA to change its valuation when a clear over valuation had occurred. Barney Bears Nursery told us its rateable value was calculated at £42,000 when in fact their rent was

161 Petrol Retailers Association & Car Wash Association (IBR0116)
162 Enterprise Nation (IBR0098)
163 The Clubhouse London Limited (IBR0063)

£25,000 and that in order for the VOA to adjust their rateable value they needed their landlord to write to the VOA. They felt that the "VOA officers should do sites visits and base rates on facts" rather than assumptions.[164]

160. The Rating Surveyors' Association told us that decisions were being made on a case by case assessment, rather than based on the wider picture. They wrote that:

> A holistic approach is required rather than by case by case clearance. Challenges are not judged against a known code but have regard to other assessments. When changes were proposed to the appeal system for the 2017 revaluation, the intentions in the terms of reference were widely considered to be constructive. The indications were that trust, transparency and openness would be integral. The problem is that the system that has been delivered does not work in such a way. It feels [to businesses] that the deck is stacked against them, and that perceived injustices are not dealt with fairly.[165]

161. Paul Crossman, a multiple pub operator in York, told us that the VOA had transferred the onus of proving the appropriateness of valuation onto business. He said that:

> When I argued that we were overtrading […] and that the new [rateable value] was out of all proportion with all local comparable [pubs], I was asked via email to "Please forward to me any information concerning the operation of these two pubs to support your contention that the pubs are overtrading […] The response from the VOA […] clearly reveals that in fact [Fair Maintainable Trade] is not actually assessed as part of the valuation process. Instead there is a clear expectation that publicans will need to go through the appeal process in order to get a more accurate and fair valuation.[166]

162. **Business rates need to be fair to all ratepayers, and where unfairness is perceived, action needs to be taken to address the concern. At present, there is a significant level of distrust of the VOA's valuation techniques in some business sectors. When a ratepayer questions a valuation, VOA staff should explain clearly how their valuation complies with their own guidance, particularly when they have used the contractor's valuation method. The VOA must also take appropriate action to put things right quickly when presented with evidence that their valuation is incorrect.**

164 Barney Bears Nursery's Ltd (IBR0003)
165 Rating Surveyors Association (IBR0047)
166 Mr Paul Crossman (IBR0049)

3 Alternatives to the current system

Time for change?

163. We heard from a number of organisations[167] that the current system is no longer fit for purpose. For example, the British Chambers of Commerce, the national representative body of 52 accredited chamber of commerce in the UK, said that:

> While there have been welcome steps over recent years to blunt the impact of business rates, the businesses that we represent have repeatedly and unequivocally stated that, in its current form, the system is broken.[168]

164. Any reforms to the Business Rates System should have particular regard both to the need to maintain the total income for local authorities and to keep the link between individual authorities and the current and potential new businesses in their areas.

165. A number of alternatives to the current property-based tax have been put forward as a way to fundamentally re-work the business rates system. We have reviewed these various options.

Land value tax

166. There are several different names for a land value tax, including site value tax,[169] location value tax,[170] and landowner levy.[171] The basis for all three proposals is the same. The All-Party Parliamentary Group on Land Value Capture outlined what it considered would be the benefits on transferring the tax from property to the underlying land as follows:

- It would be fairer to align how much businesses pay more closely with the benefits they receive and would not penalise additional investment.
- It would encourage growth:
  - By encouraging the best use of land, particularly in more valuable locations.
  - By encouraging public investment in infrastructure and other improvements through the provision of a more effective mechanism for capturing the consequent increases in land value and so enable projects to become potentially self-funding.
- Simplification
  - Shifting the tax base from occupiers to landowners could remove around half a million SMEs from the system all together.

167 Organisations include: British Retail Consortium (IBR0057); CBI (IBR0100); Make UK (IBR0128); NoteMachine Group (IBR0127); and R3Intelligence/ Northumbria University (IBR0103).
168 British Chambers of Commerce (IBR0099)
169 Gerald Eve LLP (IBR0013)
170 Woodhaven Trust (IBR0043)
171 Liberal Democrats, 'Replacing business rates: taxing land, not investment', accessed 12 August 2019

- Limiting the valuation to the land component of the property and making use of geographical information systems would simplify the valuation process.[172]

167. Whilst noting the anticipated advantages of moving to a land-based tax, organisations such as the Country Land and Business Association, a membership organisation of land, property and business owners, had concerns around how this could be practically implemented in England. They wrote that:

> Whilst Land Tax may be seen as a way forward for business rates, there would be a significant hurdle in valuation terms to separate the land value from the value attributed to the buildings and structures on the land and the business use. In addition, there would not seem to be a [more] accurate link between capital values than rental values.[173]

168. Gerald Eve LLP agreed that, theoretically, the economic theory behind a land-based tax was strong, but that the actual implementation would be challenging. Its concerns included:

- The absence of a complete register of interests in land.
- The problem of determining who the 'owner' is for levying the tax. Is it the freeholder, who may have granted a 999 year lease 100 years ago and is possibly no longer traceable, or the head leaseholder who granted a 125 year lease 30 years ago, the sub-leaseholder, or tenant who has granted a licence etc?
- The paucity of sales of bare land which would form the evidence on which to found valuations. One would first have to establish what planning permission would likely be granted for each site (in order to determine the highest and best use available for the site) and then establish its development value. There would thus probably be a 100 per cent appeal rate given the lack of reliable market evidence.
- The upheaval from changing from a long-established system to a new untested one, no doubt creating many losers (as well as winners).[174]

169. Kevin Muldoon-Smith, a lecturer at Northumbria University, summed up the debate around a land-based tax when he told the Committee that the concept makes "economic sense" but that the locations where this has been implemented successfully have had "very different property cultures from ours". While the theory of a land-value tax has its merits, "it has almost had its day before it has had an opportunity to have its day".[175]

170. **A land-based tax is theoretically appealing as it charges landowners rather than tenants—although it cannot be known on whom the final incidence of the tax would fall—and incentivises the best possible use of land. However, the practicalities of implementation are very difficult. It is likely that there would be more appeals. There would be an enhanced level of technical judgement required, particularly in built up areas where there are very few sales to generate a reliable value and it is very difficult**

172 All-Party Parliamentary Group on Land Value Capture (IBR0034)
173 Country Land and Business Association Ltd (CLA) (IBR0010)
174 Gerald Eve LLP (IBR0013)
175 Q390

to separate the value of land from the value of the buildings that are situated on that land. Land value tax would incentivise high-density usage, and there could be instances where this would not be the desired outcome, such as green spaces.

171. **In response to this Report Treasury should research examples from other countries with Land Value Taxes such as Australia and Denmark.**

Alternatives to property-based taxes

172. We received evidence putting forward proposals of alternative ways to tax businesses at a local level which will be discussed in turn.

Online sales levy

173. One of the most recurring sentiments heard as part of the inquiry was that—particularly for the retail sector—'bricks and mortar' businesses were adversely affected by the current business rates system compared to online retailers. The All-Party Parliamentary Group on Land Value Capture told us that that there is a "need for the large international online platforms such as Amazon to be taxed more fairly."[176]

174. Concerns around fair taxation between online retailers and those on the high street has been echoed by a number of organisations.[177] For example, Accessible Retail told us that the "unfairness is compounded by many on-line traders being international and able to switch much of their UK corporation tax liability to lower jurisdictions. The impact is profound."[178]

175. Steve Rigby, Group Property Director for Tesco, outlined the need to rebalance the system when he gave evidence to the Committee:

> The system can be repaired, but it actually needs fundamental rebalancing, because in the retail industry now, 20 per cent of the sales are online. That is a fundamental change, at a time when the rates burden for bricks and mortar retailers has been rising continually. For instance, Tesco's rate bill has almost doubled over the past 10 years to £700 million.[179]

176. In its written evidence to the Committee Tesco outlined a proposal for an Online Sales Levy (OSL), which would be levied against 'physical goods' sold online, income from which would be used to reduce the multiplier for retailers, relieving the cost the business rates. They wrote:

> The OSL would create a new levy for online sales, which could be used to reduce the significant burden placed on bricks and mortar retailers. The key design features are:

176 All-Party Parliamentary Group on Land Value Capture (IBR0034)
177 Organisations include: The Booksellers Association (IBR0068), British Institute of Innkeeping (IBR0056); CBRE Limited (IBR0076); The Entrepreneurs Network (IBR0051); Chartered Surveyor Matthew Griffiths (IBR0017); Royal Society for Public Health (IBR0053); and Shop Direct (IBR0072)
178 Accessible Retail (IBR0038)
179 Q347

- Introduce a 2 per cent levy on the online sale of physical goods. Currently revenues from online sales are £69bn in the UK, meaning the levy would raise approximately £1.5 billion.
- Use this money to fund a 20 per cent cut in business rates for all retailers.
- Use existing mechanisms to deliver the reduction in business rates.
- Exempt small businesses from the levy, by using a revenue threshold, to ensure the OSL does not impact small, online businesses.
- Use existing VAT definitions of a physical good and ensure only appropriate sales are targeted.[180]

177. Having a fair tax base for all businesses is important, whether they are online or 'bricks and mortar' businesses. However, we also heard in the written and oral evidence that increasing tax revenue from one income stream may not be the most appropriate way to do this.

178. Chris Harris, Group Property & Development Director for the John Lewis Partnership, a high-end department store, raised concerns about taking one element of John Lewis' business to apply an additional tax to, the basis for which is not driven by a customer making an explicit choice. He said:

> I was describing earlier that our business is intertwined. We have an online and a bricks and mortar business. It is completely combined, and customers do not choose necessarily to go into a shop or online in an explicit way. They just look to shop at John Lewis and, therefore, the way that it is joined up and the fact that you can buy online, collect from store, the fact that our distribution distributes to all channels, the fact that if we do not have it in stock you can order it instore and collect it instore or collect it from your home, it is completely omnichannel and combined. Taking one element of our business and saying, "Let's apply a tax over there" seems like not the right way forward.[181]

179. Other organisations such as the Federation of Small Businesses, a not-for-profit membership and campaign organisation, raised concerns over the risk of double-taxation, and the impact an online sales levy would have on a low-profit high-turnover business.[182]

180. Some other organisations considered that an online sale tax merited further investigation. For example, Rachel Kelly, Senior Policy Officer for the British Property Federation, a trade association for UK residential and commercial real estate companies, told the Committee:

> I don't think that the issues with business rates are just a retail issue. I think that retailers are struggling at the moment, and there is a huge structural shift going on in that industry. I think that the economy is changing broadly and quickly. We see disruption in other asset classes; Airbnb is disrupting the hotel industry. The way we are using office space is changing […].

180 Tesco (IBR0087)
181 Q177
182 Federation of Small Businesses (IBR0042)

> I think the crux of the issue comes down to the business rates system not accurately valuing property in real time. The way we use property will change. Certain property will become more valuable or less valuable. Taking online retail as an example, as that industry grows, presumably those kinds of distribution warehouses—last-mile distribution points and click and collect points—will have value. There will be physical premises that they are using that will become more valuable. If the business rates system was more adaptable and reflected those values in real time, the burden that different industries paid would be more equally shared.[183]

181. The Housing, Communities and Local Government Committee considered the differences in the burden of tax between companies on the high street compared to those online in more detail in its *High streets and town centres in 2030* inquiry.[184]

182. **Businesses deserve a system that reacts to changes in the modern economy. A number of alternatives to the current business rates system were presented and an equal number of reasons presented as to why England and Wales are not yet ready to move to them. One of the key reasons is that there is insufficient modelling of the viable alternatives, and therefore insufficient data to make a recommendation for change currently. This is true of the online sales levy.**

Sales or turnover tax

183. A sales tax could be levied on a service or item at point of sale, either at a local or national level. British BIDs,[185] a membership organisation that provides advice, training and services to business improvement districts, advocated the introduction of a local sales tax. They told us that "a local sales tax would link business performance to tax liability more effectively, and it could be operated within the VAT system as a tax at final sale." They went on to say that "the feasibility of a sales tax and its prospective benefits present a real opportunity to make business taxes work better for government and the British economy."[186]

184. The Institute of Revenues Rating and Valuation, a professional body for local taxation, benefits and valuation, also advocated a local sales tax in its written submission to the Committee in which they gave examples of local sales taxes in the USA, Canada and New Zealand. In these countries each state or province can levy an additional sales tax, and that there is the option to "levy a sales tax in additional to conventional property taxes".[187]

185. River Island wrote to the Committee explaining the benefits of a national sales tax in addition to VAT that "would be fair to all retailers", with "ease of management" and "would also save the UK Government a huge amount of administrative cost in running the current business rates system."[188]

183 Q409
184 Eleventh Report of the Housing, Communities and Local Government Committee, High streets and town centres in 2030, HC (2017–19) HC 1010
185 BIDs - Business Improvement Districts
186 British BIDs (IBR0093)
187 Institute of Revenues, Rating and Valuation (IBR0109)
188 River Island Clothing Company Ltd (For and on behalf of the Retailers Rates Action Group) (IBR0032)

186. But other witnesses had concerns about the potential negative impacts of a turnover tax. The Federation of Small Businesses were concerned that small retailers would be disproportionately affected by a turnover tax because they often have high turnover but low margins.[189] The National Farmers Union (NFU) considered that such a tax would be regressive and have a greater impact on lower income households.[190] The Institute for Fiscal Studies, an economic research institute, was concerned that a turnover tax would discourage production and consumption.[191]

187. The Rating Surveyors Association warned against a local sales tax. It said that "The rate poundage is levied against the real property of the whole country. Attempts to apply it to only parts of the country are likely to cause property market distortions, enormous difficulties of definitions, and an unproductive industry jostling to contrive property to be treated this way or that."[192]

Profits tax

188. A profits tax would be analogous to corporation tax, charged on the earnings of a business after expenses are deducted.

189. The NFU took the view that if a profit-based tax could be "delinked from fiscal neutrality for the government year on year and based on the varying profits of businesses" it may be viable.[193]

190. A profits based tax could be linked to the existing mechanisms that collect corporation tax which would appear to make it simple to collect. However, the Association of Accounting Technicians, a professional accountancy body, raised concerns that while appearing to be an acceptable solution "the reality of profit shifting undertaken by multi-national organisations as well as the various legitimate profit reducing activities that many companies undertake" could make it difficult to collect. It also raised concerns that "many organisations who currently pay substantial sums of business rates e.g. local authorities, schools and hospitals, would no longer make any contribution given there are no profits to tax.[194]

191. **At this time, there does not appear to be sufficient appetite from businesses or consumers to introduce an additional sales or profits-based tax. Based on current information, there is a risk that the introduction of such a tax could adversely affect some sectors of the population and some sectors within business.**

Single consolidated tax

192. A single consolidated tax for small businesses was advocated by the Centre for Policy Studies, a think tank and pressure group, with the advantages cited as being a dramatic reduction in the reporting and administrative burden for small businesses, that would make the tax significantly simpler. It said that the case for a simple consolidated tax was that:

189 Federation of Small Businesses (IBR0042)
190 National Farmers' Union (IBR0074)
191 Institute for Fiscal Studies (IBR0115)
192 Rating Surveyors Association (IBR0047)
193 National Farmers' Union (IBR0074)
194 Association of Accounting Technicians (IBR0014)

- The Office of Tax Simplification is clear that we need a better, simpler tax regime for small businesses.
- The average small business loses three working weeks a year to the demands of tax compliance, in addition to the financial costs.
- Corporation Tax, Employer's National Insurance, VAT and business rates are not just hard to afford but hard to administer.
- All firms with revenue under £1,000,000 should be able to replace these taxes with a simple levy on turnover.
- Modelling by Capital Economics suggests this would be revenue-neutral for the Treasury at a rate of approximately 12.5 per cent.
- If 'don't knows' were excluded, businesses would strongly support the introduction of such a scheme, 72 per cent would choose to use it if it meant paying the same amount of tax.[195]

193. While noting that the Centre for Policy Studies advocated for a single consolidated tax for small businesses, we considered the concept more widely for all businesses. Tej Parikh, Senior Economist at the Institute for Directors, raised concerns that a single tax would be challenging. He told us that "ultimately, given changing business models and the need to capture different forms of economic activity, it will be difficult to do that through a single, one-size-fits-all tax."[196]

194. **On its own, a single consolidated tax would not appear to present sufficient solutions to the issues being experienced by the current business rates system. Nonetheless a single consolidated tax would be simple, it is something that some small businesses want, and, if it was designed to be revenue neutral, could be a viable option in the future.**

Hybrid tax

195. A hybrid tax would allow for elements of different tax types to be combined such as the unavoidability of property-based tax and the responsiveness to business performance of a profits-based tax. This would create a new tax that is more adaptable to suit the needs of different industries, and size of business.

196. In its written submission to the inquiry Northumbria University wrote that to ensure a robust and fair business rates system:

- the business rate system must be responsive to economic conditions and fairly incentivise investment in property and business; [and that]
- the business rate system should be sensitive to the new world of work that favours leaner, hybrid business models that mix bricks and mortar and digital transaction interfaces […][197]

195 Centre for Policy Studies, 'Think Small: a blueprint for supporting UK small businesses', accessed 12 August 2019

196 Q388

197 R3Intelligence/ Northumbria University (IBR0103)

197. UKHospitality, a hospitality trade association, supported the introduction of a hybrid system to address concerns that the current business rates system was outdated in the modern economy. It said that "there could be a role for a hybrid system, with a much-reduced property-based system that is supplemented by a system that is more closely aligned to revenue or profitability."[198]

198. We discussed the concept of a hybrid system with Kevin Muldoon-Smith, lecturer at Northumbria University who told us that in the future a hybrid tax could provide more flexibility in the business rates system:

> In the future, we will have to look at how the world of work is changing, so absolutely I think a hybrid system will have elements of digital in there. I think the existing property-based system needs to be improved. On that compromise of the land value tax system, potentially, there could be an element of land in there, if we wanted to investigate a split-rate system in the future.[199]

199. **A hybrid system is a potentially viable option in the future that would enable the Government to have a tax system that is more reactive to changes in the modern economy. However, to be assessed further it needs a comprehensive plan outlining how a hybrid tax could be constituted, and a blueprint for taking this idea further.**

200. **It is clear change is needed to the current business rates system. None of the alternative systems presented to this inquiry have demonstrated that they are a clearly superior alternative. However, it should not be up to external stakeholders to develop and evaluate detailed proposals. Given the changing nature of the economy, and with high streets on the decline, the Government needs to be curious, proactive and creative in exploring alternative options to such an important source of Government revenue. We recommend that the Government prepares a consultation in time for the next Spring Statement to identify potential alternatives to the current system of business rates and form the basis for a subsequent detailed evaluation of viable options.**

201. **The primary considerations given the extended period of time this has been an issue, should be the ease and speed with which any potential reforms can be introduced and the fairness of the system.**

198 UKHospitality (IBR0077)
199 Q420

4 The VOA

202. The VOA is an executive agency of HMRC and, as such, falls under this Committee's remit for routine scrutiny.

203. The VOA is responsible for generating the rateable value listing that underpins the business rates system. They are responsible for maintaining and updating the rating list between revaluations to ensure the business rates charge levied on business is accurate.

Staffing at the VOA

204. In the evidence to this inquiry, we heard that VOA staff were conscientious and dedicated. The National Trust told us that it benefited "from a dedicated case holder" within the VOA who dealt with them using a "national co-ordination basis [which they saw as] invaluable."[200]

205. The concerns that were raised relating to VOA staffing focussed on adequate resourcing. The British Retail Consortium,[201] a retail trade association, and Revo,[202] both believed the VOA were "under resourced". The Rating Surveyors Association felt that the VOA was trying to manage a lack of staff resources by de-skilling some of its processes to enable more junior staff to carry out the work.[203]

206. The British Beer and Pub Association wrote to us to explain how specific skills and local knowledge were important:

> The determination is by its nature a subjective one and one that requires expertise in valuing pubs specifically. However, the declining number of Valuation Officers with pub expertise means this subjective term is more likely to be misused or misunderstood leading to less robust valuation and a greater number of appeals. We would urge greater investment and training in pub-specific valuation officers–a Google search cannot replace the local knowledge and sector-specific understanding of a well-trained officer.[204]

207. CBRE raised concerns that the VOA had reduced its headcount too far in recent years, and that reduction was now adversely affecting operations:

> The VOA has seen year on year cuts to its budget. This has led to a situation where there have had to be significant office closures and reduction in staff numbers. For a tax that generates over £30 billion plus per annum, it cannot be right that VOA is finding it more and more difficult to administer and maintain the rating list. The VOA needs to be better funded so that the new CCA system can work as intended.[205]

208. We raised witnesses' concerns around VOA staffing and the perceived impact on customer service with Melissa Tatton, Chief Executive of the VOA. She told us:

200 The National Trust (IBR0048)
201 British Retail Consortium (IBR0057)
202 Revo (IBR0096)
203 Rating Surveyors Association (IBR0047)
204 British Beer and Pub Association (IBR0028)
205 CBRE Limited (IBR0076)

> I'm not complacent about customer service. We have targets that we work really hard to meet. I care about all the things that others care about, and my people are very proud of the work that they do. I'm very keen to keep a really strong service.[206]

209. We asked whether the VOA was being as candid as it needed to be with HM Treasury around its resourcing requirements, with particular reference to the upcoming Spending Review. The VOA confirmed that "going forwards, [it] will be making a strong case for resourcing of the agency under the spending review."[207]

210. At the 2017 Autumn Budget, the Chancellor of the Exchequer announced the intention to reduce the gap between revaluations from five years to three years following the next revaluation due in 2022.[208] In the 2018 Spring Statement, the Chancellor announced that the next revaluation would be brought forward from 2022 to 2021.[209]

211. The Rating Surveyors Association were concerned that reducing the time between revaluations would increase the need for the VOA to be appropriately staffed. They told us that "in order to deliver three yearly revaluations, it is vital that the Valuation Office is properly resourced."[210]

212. **Reducing the gap between revaluations from five years to three years will increase the demands on the VOA. The VOA needs to ensure that it is properly staffed to deliver its specialist role. This includes sufficient resource to deliver the next valuation listing on time, to be able to respond to Checks and Challenges on the current system, and to be able to conclude appeals from the legacy systems and enhance functionality on the Check Challenge Appeal process simultaneously. The VOA must perform a detailed analysis of its staffing and skills requirement in time for the next Spending Review and share it with this Committee.**

206 Q501
207 Q502
208 Gov.uk, 'Autumn Budget 2017', accessed 14 August 2019
209 Gov.uk, 'Spring statement 2018: what you need to know', accessed 12 August 2019
210 Rating Surveyors Association (IBR0137)

Conclusions and recommendations

Overview of business rates as tax

1. The growth in business rate revenue has outpaced inflation since the current system was introduced in 1990. Whilst noting that other factors have contributed to the variance, the Government should acknowledge that there has been an above inflation increase in commercial property-based taxation since its introduction in 1990 and that the revenue generated by business rates has grown as a proportion of GDP. We note below the effect that the timing of the release of the 2017 rating list and increases in the multiplier have had on increasing the level of business rates paid by business. (Paragraph 28)

2. In response to this report, the Government should explain whether it is government policy to allow the growth in business rates to outpace inflation. This is a crucial question which also requires further consideration by the Committee. This will include the consideration of the impact of reliefs. (Paragraph 29)

3. The increase in the tax rate of business rates appears to be inconsistent when compared to the UK's other corporate tax rates which are falling. The business rates multiplier has continued to increase over time, resulting in the UK having one of the highest property-based taxes in the OECD as a proportion of GDP. (Paragraph 42)

4. We would like the Government to set out its views on the fact that business rates provides one of the highest property tax takes in the OECD. In its response the Government should address the impact that the level of business rates has on the attractiveness of the UK as a destination for investment. It should also address the impact on business directly; in this respect we note, in particular, that profitability or cash flow is not a factor in determining business rates liability. (Paragraph 43)

5. Business rates have become an increasingly significant proportion of the total taxes borne by business. In response to this report HM Treasury must explain whether it is deliberate government policy to rebalance business taxes in this way and, if so, what this policy decision is intended to achieve. (Paragraph 44)

Complexity of the current system

6. The number of reliefs that are needed for business rates to work indicate a broken system. Each additional relief adds a further layer of bureaucracy to an already complex system. HM Treasury should review all business rate reliefs to ensure that they remain necessary. We discuss later the extent to which business rates align with government policy to encourage investment. We note that the system of reliefs have a part to play in this. (Paragraph 51)

7. All 361 billing authorities have the autonomy to run their business rates system as they see fit. There is no obligation for billing authorities to help businesses understand the reliefs that they may be eligible for. There is no requirement for billing authorities to be consistent in whether reliefs are applied automatically or not. (Paragraph 59)

8. The Ministry for Housing, Communities and Local Government (MHCLG) should work with all billing authorities to create a single comprehensive guide on how business rate reliefs are operated by the individual billing authorities. This would result in consistency in approach by all billing authorities. It would also provide clarity for business on what discretionary reliefs they may be eligible for, and what steps must be taken to claim them. (Paragraph 60)

9. We recognise that transitional relief exists to minimise the movements in any particular year that result from changes in valuation, and that many businesses will have benefited from such relief. However, the decrease in open market rental valuations in the 2017 rating list needs to be reflected more quickly in rates bills for those businesses who are paying significantly higher rates than the open market rental value of their properties would normally determine. The current transitional relief system has kept rate bills artificially high over a prolonged period for many businesses. (Paragraph 69)

10. We recommend that transitional relief is redesigned to ensure that before the end of a rating list, businesses can complete the transition, upward or downward, to their correct rateable value. By the end of the rating list's life, all business rates liabilities should represent the period's rating list value, adjusted for inflation. This will mean that for the next rating list, there would not be any need for transitional relief related to the previous rating list's values. (Paragraph 70)

11. The current approach to business rates acts as an immediate significant disincentive to investment. Such an approach contradicts wider government policies such as reducing the UK's carbon emissions through investment in greener technologies or improving productivity. (Paragraph 82)

12. HM Treasury needs to revise the business rates system and implement change to support and encourage investment by businesses. When considering the reforms necessary to achieve these changes, HM Treasury may wish to consider lessons learnt by devolved nations when they have made similar adjustments to their business rates system. (Paragraph 83)

13. The Government needs to ensure that business rates align with its aim to boost productivity and do not undermine its intentions to encourage businesses to invest in energy efficient technologies and better data connectivity. (Paragraph 92)

14. The classes of plant and machinery that are included in the business rates calculation were last re-defined in 1993, when the UK economy operated very differently. Many modern businesses have moved away from being dependent on plant and machinery. It is therefore unfair on the manufacturing sector for their business rates valuation to include their essential operating equipment, where other businesses are not equally affected. (Paragraph 93)

15. The Government should look at where case law currently stands on what assets are included in rateable values and should consider whether legislation is required to ensure the categories are fit for the modern economy. If it is the Government's stated aim to incentivise the transition to a green economy, it should be proactive

in ensuring that businesses that invest in green assets such as solar panels or energy efficient machinery are not subjected to higher business rates as a result. (Paragraph 94)

16. HM Treasury must keep the definition of what is included in a rateable value up-to-date and ensure that that definition supports wider government targets to support business growth. (Paragraph 95)

17. The VOA's previous appeals system needed to be replaced. It made it too easy for businesses to make speculative appeals and created an unsustainable workload for the VOA. (Paragraph 99)

18. It is unacceptable that there are still appeals outstanding from the 2010 listing, years after the appeals were first raised. The VOA must resolve these appeals as a matter of urgency. Such long delays bring the work of the VOA into disrepute and undermine trust in the UK tax system. No business should be waiting for over two years into the next rating list for their checks or challenges from the previous rating list to be resolved. (Paragraph 111)

19. The current statutory response times are too generous. No business should have to wait up to two and half years for their appeal to conclude. We recommend that the Government introduces new secondary legislation under Section 143 of the Local Government Finance Act 1988 to reduce the statutory limit for both Checks and Challenges to a more reasonable timeframe, preferably a maximum of six months each. (Paragraph 112)

20. The VOA considers the level of information it is providing to ratepayers is sufficiently transparent. However, the evidence we received from business ratepayers, across a variety of sectors, shows that many businesses do not agree. The VOA has a duty to maintain trust and confidence in its appeals process. Where there is a legislative block on providing a ratepayer with all relevant evidence used to establish a property valuation, the VOA must ensure the ratepayer understands the reasons why such evidence is being withheld. The VOA should also monitor and report to us annually how often it denies transparency requests. (Paragraph 122)

21. It is unacceptable to bring in a system that creates so many difficulties for ratepayers. The Check Challenge Appeal process should have been designed so that at its initial implementation in April 2017 it had more functionality than the system it was replacing. In particular, it should have been possible for businesses with multiple properties to authorise an agent to work on their behalf, as firms were able to do previously. (Paragraph 135)

22. Bringing a new system online with less functionality than its predecessor has eroded public confidence. Whilst the VOA has improved the functionality of the system for multi-site and larger businesses since Check Challenge Appeal was introduced, these issues were known about before implementation. They should have been addressed before the system went live. (Paragraph 136)

23. The overwhelming evidence is that the VOA's systems do not work for ratepayers with multiple properties. There continues to be a disconnect between how the VOA and the users of the Check Challenge Appeal view its ease of use and complexity.

The VOA must make sure that ratepayers with multiple properties are able to use its systems easily and that its systems are not creating unnecessary additional bureaucracy. (Paragraph 137)

24. HM Treasury should work closely with the VOA and HMRC to develop a timetable to migrate business rates onto the 'Making Tax Digital' platform. The migration needs to learn from the lessons of bringing Check Challenge Appeal online ensuring that there is no loss of functionality with the transition. (Paragraph 143)

25. Moving to the 'Making Tax Digital' platform would give the VOA the opportunity to revisit the issue of user authentication and to improve the verification process, for example through alignment of business rates with VAT returns. There may also be scope for further authentication in future as other business taxes are brought into the system. (Paragraph 144)

26. Valuations do not always appear to use the most appropriate methodology or reflect changing business models. Businesses must be able to adapt to compete in the modern economy and good tax policy should be fair and coherent. The VOA must ensure that it is open-minded and prepared to revisit the traditional way that it values businesses to ensure that they take account of real-life modern business experience. We recommend that internal guidelines are reviewed to ensure staff take a flexible and responsive approach to valuation. (Paragraph 154)

27. It appears that the system permits significant discrepancies to exist in the valuations of seemingly similar businesses. We recommend that in its review of internal guidelines the VOA looks at how those discrepancies arise and whether there is scope to improve valuation methodologies so they lead to more consistent outcomes. (Paragraph 158)

28. Business rates need to be fair to all ratepayers, and where unfairness is perceived, action needs to be taken to address the concern. At present, there is a significant level of distrust of the VOA's valuation techniques in some business sectors. When a ratepayer questions a valuation, VOA staff should explain clearly how their valuation complies with their own guidance, particularly when they have used the contractor's valuation method. The VOA must also take appropriate action to put things right quickly when presented with evidence that their valuation is incorrect. (Paragraph 162)

Alternatives to the current system

29. A land-based tax is theoretically appealing as it charges landowners rather than tenants—although it cannot be known on whom the final incidence of the tax would fall—and incentivises the best possible use of land. However, the practicalities of implementation are very difficult. It is likely that there would be more appeals. There would be an enhanced level of technical judgement required, particularly in built up areas where there are very few sales to generate a reliable value and it is very difficult to separate the value of land from the value of the buildings that are situated on that land. Land value tax would incentivise high-density usage, and there could be instances where this would not be the desired outcome, such as green spaces. (Paragraph 169)

30. In response to this Report Treasury should research examples from other countries with Land Value Taxes such as Australia and Denmark. (Paragraph 170)

31. Businesses deserve a system that reacts to changes in the modern economy. A number of alternatives to the current business rates system were presented and an equal number of reasons presented as to why England and Wales are not yet ready to move to them. One of the key reasons is that there is insufficient modelling of the viable alternatives, and therefore insufficient data to make a recommendation for change currently. This is true of the online sales levy. (Paragraph 181)

32. At this time, there does not appear to be sufficient appetite from businesses or consumers to introduce an additional sales or profits-based tax. Based on current information, there is a risk that the introduction of such a tax could adversely affect some sectors of the population and some sectors within business. (Paragraph 190)

33. On its own, a single consolidated tax would not appear to present sufficient solutions to the issues being experienced by the current business rates system. Nonetheless a single consolidated tax would be simple, it is something that some small businesses want, and, if it was designed to be revenue neutral, could be a viable option in the future. (Paragraph 193)

34. A hybrid system is a potentially viable option in the future that would enable the Government to have a tax system that is more reactive to changes in the modern economy. However, to be assessed further it needs a comprehensive plan outlining how a hybrid tax could be constituted, and a blueprint for taking this idea further. (Paragraph 198)

35. It is clear change is needed to the current business rates system. None of the alternative systems presented to this inquiry have demonstrated that they are a clearly superior alternative. However, it should not be up to external stakeholders to develop and evaluate detailed proposals. Given the changing nature of the economy, and with high streets on the decline, the Government needs to be curious, proactive and creative in exploring alternative options to such an important source of Government revenue. We recommend that the Government prepares a consultation in time for the next Spring Statement to identify potential alternatives to the current system of business rates and form the basis for a subsequent detailed evaluation of viable options. (Paragraph 199)

36. The primary considerations given the extended period of time this has been an issue, should be the ease and speed with which any potential reforms can be introduced and the fairness of the system. (Paragraph 200)

The VOA

37. Reducing the gap between revaluations from five years to three years will increase the demands on the VOA. The VOA needs to ensure that it is properly staffed to deliver its specialist role. This includes sufficient resource to deliver the next valuation listing on time, to be able to respond to Checks and Challenges on the current system, and to be able to conclude appeals from the legacy systems and

enhance functionality on the Check Challenge Appeal process simultaneously. The VOA must perform a detailed analysis of its staffing and skills requirement in time for the next Spending Review and share it with this Committee. (Paragraph 211)

Formal minutes

Tuesday 22 October 2019

Members present:

Catherine McKinnell, took the Chair, in accordance with the Resolution of the Committee of 9 September

Rushanara Ali
Alison McGovern
Alison Thewliss

The following members of the Housing, Communities and Local Government Committee were also present (Standing Order No. 137A).

Mr Clive Betts
Kevin Hollinrake

Draft Report (*Impact of business rates on business*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 212 read and agreed to.

Summary agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 29 October at 2.00 p.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 7 May 2019

John Boulton, Technical Strategy Department Manager, Institute of Chartered Accountants in England and Wales, **Tom Emlyn Jones**, President, Rating Surveyors Association Q1–56

Neil Leitch, Chief Executive, Early Years Alliance, **Paul Crossman**, Multiple pub operator, **Kate Nicholls**, Chief Executive, UK Hospitality, **Mandy McNeil**, Vice Chair, Save UK Pubs Q57–108

Wednesday 22 May 2019

Meryl Halls, Managing Director, Booksellers Association, **Chris Harris**, Group Property & Development Director, John Lewis Partnership, **Sebastian James**, Chief Executive, Boots UK Q109–186

Catherine Gras, Spokesperson for Gas Storage Operators Group and Chief Executive, Storengy UK, **Adam Blaskey**, Founder, The Clubhouse, **Seamus Nevin**, Chief Economist, Make UK, **Eleanor Griggs**, Land Management Adviser, National Farmers Union Q187–249

Tuesday 4 June 2019

Andy Street CBE, Mayor, West Midlands Combined Authority, **Cllr Richard Watts**, Islington Council Leader, Local Government Association, **Prof. Chris Turner**, CEO, British BIDs, **Ojay McDonald**, CEO, Association of Town and City Management Q250–343

Wednesday 19 June 2019

Jerry Schurder, Head of Business Rates, Gerald Eve LLP, **Rachel Kelly**, Senior Policy Officer, British Property Federation, **Kevin Muldoon-Smith**, Lecturer, Northumbria University, **Tej Parikh**, Chief Economist, Institute of Directors, **Steve Rigby**, Group Property Director, Tesco Q344–441

Wednesday 10 July 2019

Melissa Tatton, Chief Executive Officer, Valuation Office Agency, **Alan Colston**, Chief Valuer, Valuation Office Agency Q442–541

Jesse Norman, Financial Secretary to the Treasury, HM Treasury, **Rishi Sunak**, Minister for Local Government, Ministry of Housing, Communities and Local Government, **Mike Williams**, Director Business and International Tax, HM Treasury Q542–635

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

IBR numbers are generated by the evidence processing system and so may not be complete.

1 Accessible Retail (IBR0038)

2 ACM Projects Ltd (IBR0024)

3 All-Party Parliamentary Group on Land Value Capture (IBR0034)

4 The Alligator's Mouth (IBR0091)

5 Altus Group (IBR0094)

6 Altus Group (IBR0139)

7 Association of Accounting Technicians (IBR0014)

8 Association of Convenience Stores (IBR0064)

9 Association of Town and City Management in partnership with The BID Foundation (IBR0105)

10 Bacta (IBR0039)

11 Barette, Mr Paul (IBR0111)

12 Barney Bears Nursery's Ltd (IBR0003)

13 Barrels Public House Hereford (IBR0036)

14 The Bath Pub Company Ltd (IBR0117)

15 bira (IBR0106)

16 Blake Penfold (IBR0027)

17 BNP Paribas Real Estate (IBR0061)

18 Boots (supplementary) (IBR0138)

19 The Booksellers Association (IBR0068)

20 The Booksellers Association (IBR0142)

21 Breckland Council (IBR0058)

22 Brighton & Hove Licensees Association (IBR0119)

23 British Beer and Pub Association (IBR0028)

24 British Beer and Pubs Association (IBR0132)

25 British BIDs (IBR0093)

26 British Chambers of Commerce (IBR0099)

27 British Institute of Innkeeping (IBR0056)

28 British Property Federation (IBR0088)

29 British Property Federation (IBR0134)

30 British Property Federation (IBR0141)

31 British Retail Consortium (IBR0057)

32 British Takeaway Campaign (IBR0059)

33 Broadland District & South Norfolk Councils (IBR0114)

34 Camden Town Unlimited (IBR0070)

35 Camden Town Unlimited, Euston Town, Captial Enterprise, ATCM and WorkWILD (IBR0071)

36 Campaign for Real Ale (IBR0102)

37 CBI (IBR0100)

38 CBRE Limited (IBR0076)

39 Centre for Cities (IBR0067)

40 The Chartered Institute of Taxation (CIOT) (IBR0050)

41 Child First Nurseries (IBR0021)

42 The Clubhouse London Limited (IBR0063)

43 Colliers International (IBR0073)

44 The Company Chemists' Association Ltd (IBR0083)

45 Country Land and Business Association Ltd (CLA) (IBR0010)

46 Countryside Alliance (IBR0140)

47 Crossman, Mr Paul (IBR0049)

48 Crossman, Mr Paul (IBR0152)

49 District Council's Network (IBR0090)

50 Early Years Alliance (IBR0081)

51 Energy and Utilities Alliance (IBR0029)

52 Enterprise Inns (IBR0144)

53 Enterprise Nation (IBR0098)

54 The Entrepreneurs Network (IBR0051)

55 Federation of Small Businesses (IBR0042)

56 Field MP, Frank (IBR0153)

57 Gerald Eve LLP (IBR0013)

58 GL Hearn Limited (IBR0062)

59 Gregory Moore Property Ltd (IBR0011)

60 Griffiths, Matthew, Chartered Surveyor (IBR0017)

61 Groupe PSa (IBR0078)

62 The Heritage Alliance (IBR0097)

63 Hewson Books Ltd (IBR0095)

64 Historic Houses (IBR0060)

65 ICAEW (IBR0080)

66 Imagined Things Ltd./Imagined Things Bookshop (IBR0005)

67 Independent British Vape Trade Association (IBR0130)

68 Institute for Fiscal Studies (IBR0115)

69 Institute of Directors (IBR0040)

70 Institute of Revenues, Rating and Valuation (IBR0109)

71 Internet Services Providers' Association (IBR0122)

72 intu properties plc (IBR0035)

73 The John Lewis Partnership (IBR0101)

74 The John Lewis Partnership (IBR0133)

75 John Lewis Partnership (IBR0145)

76 Jolly Jumpers Play Zone (IBR0015)

77 Kett's Books (IBR0019)

78 Kingston University (IBR0126)

79 Lawnswood Childcare Ltd (IBR0031)

80 Learn Tuition Centre Limited (IBR0006)

81 Lichfield District Council (IBR0046)

82 Lindum Books (IBR0008)

83 Local Government Association (IBR0054)

84 Local Government Association (IBR0136)

85 London Councils (IBR0108)

86 London First (IBR0044)

87 Love Wimbledon BID Ltd (IBR0037)

88 Lyon, Julian (IBR0066)

89 Make UK (IBR0128)

90 MC & SH Cawley Ltd (IBR0020)

91 McCartan’s Ltd (IBR0065)

92 National Day Nurseries Association (NDNA) (IBR0112)

93 National Farmers' Union (IBR0074)

94 National Federation of Retail Newsagents (IBR0026)

95 National Hairdressers Federation (IBR0012)

96 The National Trust (IBR0048)

97 New West End Company (IBR0079)

98 Newcastle City Council (IBR0110)

99 North East Lincolnshire Council (IBR0052)

100 North Norfolk District Council (IBR0089)

101 NoteMachine Group (IBR0127)

102 Openreach (IBR0129)

103 Paul Crossman (IBR0125)

104 Petrol Retailers Association & Car Wash Association (IBR0116)

105 Portland Nurseries (IBR0004)

106 Powis Hughes Ltd (IBR0055)

107 Pubs Advisory Service Ltd (IBR0107)

108 Puffins of Exeter Ltd (IBR0022)

109 R3Intelligence/Northumbria University (IBR0103)

110 Rating Surveyors Association (IBR0047)

111 Rating Surveyors Association (IBR0137)

112 Revo (IBR0096)

113 Revo (IBR0143)

114 River Island Clothing Company Ltd (For and on behalf of the Retailers Rates Action Group) (IBR0032)

115 Royal Institution of Chartered Surveyors (IBR0075)

116 Royal Society for Public Health (IBR0053)

117 Save UK Pubs (IBR0118)

118 Shop Direct (IBR0072)

119 The Society of Motor Manufacturers and Traders Limited (IBR0124)

120 Solar Trade Association (IBR0146)

121 St Clements Nursery (IBR0025)

122 Storengy UK (IBR0016)

123 Surrey County Council (IBR0092)

124 Talbot Park Nursery (IBR0018)

125 Tesco (IBR0087)

126 Tesco (IBR0131)

127 Treasury Committee (IBR0135)

128 UK Cinema Association (IBR0086)

129 UK Music (IBR0041)

130 UKHospitality (IBR0077)

131 Unibail-Rodamco-Westfield (IBR0085)

132 University of Bedfordshire (IBR0084)

133 Virgin Media Limited (IBR0113)

134 Vtesse Harlow Limited (IBR0082)

135 Walgreens Boots Alliance (IBR0120)

136 Walgreens Boots Alliance (Supplementary) (IBR0138)

137 Woodhaven Trust (IBR0043)

List of reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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Second Report	IT Failures in the Financial Services Sector	HC 224
First Special Report	The work of the Financial Conduct Authority: the perimeter of regulation: FCA response to the Committee's Thirty-Fifth Report of Session 2017–19	HC 132