Response to the HM Treasury

Business Rates Review: Call for Evidence

from

British BIDs

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Response to the Treasury Business Rates Review from British BIDs.

This response to the HM Treasury Business Rates Review: Call for Evidence is from British BIDs (Bb) the decade-old membership organisation focused on serving the 329 Business Improvement Districts (BIDs) in the British Isles.

We would like to propose:

A Sales Tax, which would include an On-line sales tax, be added to the portfolio of businesses taxes.

A Capital Value tax be added to the portfolio, and we believe that allocating the tax raised through Property Owner BIDs would be the best way of ensuring that the monies raised would be spent on the needs of the business communities, harnessing the collective ability of BIDs to drive economic growth and prosperity across the country.

The Treasury explore an approach based on a portfolio of business taxes, allowing every business to contribute their tax in a way that reflects the way that they do their business in any given year. This would allow the Treasury to collect that which is appropriate in a fair and equitable manner, matching companies' ability to pay with the needs of local and central government.

The current business rates relief 'holiday' must remain in place until the outcomes of this Treasury review are effected.

The government reconsider the line between those sectors - hospitality, leisure and retail - receiving support and those not, in the period before the new business rates system becomes operational.

Local Authorities are empowered to steer the growth of their local economies, it is particularly important that they are able to support their independents, creative industries and start-ups, and thus nurture their developing business bases. This could be through a targeted version of the multiplier, and amendments to reliefs and could vary across the country.

British BIDs

Bb provides leadership, advice, training, conferences, research, accreditation, ballot support, products and services. We have over 170 members across the sector and we have a team of BID practitioners providing information, advice and guidance to BIDs across the country.

A BID is a business-led and business-funded body formed to improve a defined commercial area. The benefits of BIDs are wide-ranging and allow businesses to decide and direct what they want in their area, be represented and have a strong voice in issues affecting their trading area. The BID collects a levy, the money from which is ring-fenced for use only for the benefit of those within the BID area. Typical BID projects help to increase footfall and spend, improve staff retention, reduce business costs, and enhance marketing and promotion activities in the area. Typically, a BID is a private limited company, with a Board representing its levy payers, that enables businesses to work together with other stakeholders to plan infrastructure, work on pollution, improve traffic flow and movement, give guidance in place shaping vision activities, have powerful networking opportunities with neighbouring businesses, and allow assistance in working with the Council, Police and other public bodies.

The BID mechanism allows for a large degree of flexibility and as a result BIDs vary in shape and size. The average size of a BID includes 300-400 business premises, with some of the smallest having fewer than 50 premises and the largest over 1,000. Annual spending is typically £200,000-£600,000 but can be as little as £50,000 and as much as £2 million.

Currently there are over 133,424 businesses within BIDs, investing £132,493,286 into their local economies, and Bb uses its membership structure to communicate with and speak for them.

BIDs are thus critical players and a major force in the economy, with large numbers of businesses and a serious investment into their local economies.

Methodology

All businesses are clearly deeply affected by business rates issues, and we have collated comments from our members in formulating this response by way of a call out to all in the BID industry. We have also completed a piece of research with the New Economics Foundation Consultancy on *BIDs and the New Normal: their responses to the COVID-19 pandemic of 2020*[1], which allowed data collection from a stratified group of over 60 BIDs, and, having given presentations and workshops on the research, much new follow-up material emerged that is documented here. Bb also held a workshop on the issue of office working and the economic recovery. British BIDs has an Advisory Board of industry experts which then reviewed and gave the final approval to this submission of evidence.

The Issues

Business rates are clearly a very major issue for BIDs and their business members; we responded to the Treasury Select Committee with our evidence and made an oral presentation in June 2019[1]. We are pleased to be able to submit evidence to this fundamental review.

Whilst we fully understand the vital role that business rates play in the government economy, that the advantages of such a tax are that it is very stable and that because it is linked to property it is difficult to avoid, we believe that it is no longer fully fit for purpose.

We do understand that there is an important link between raising revenue from a business in a particular locality and the purposes to which that tax is being put to use, and we also understand that for some businesses in the professional and service arenas, who have no sales in the traditional sense, this relationship is important.

We thus believe that business rates can be retained but reduced dramatically to allow this relationship to continue.

We accept that it is a major source of income for government - last year business rates accounted for 4% of total tax revenue (£28.8 billion) and 20% of local government's local funding – but we believe it no longer reflects the way that many businesses operate.

We recognise that business rates raise almost £30bn a year but feel that, as with any form of tax, there must be a basic right for a taxpayer to ensure they are paying the correct amount. This is facilitated by the ability to appeal against a rateable value; we believe that this is not operating fairly and appropriately.

The business rates system has been reliable and logical for many years, but as the rate in the pound multiplier has increased (34.8p in 1990 to between 46.6p and 51.2p in 2019), the pressure on the system has intensified and for most of our members it is now business-critical to seek to reduce the rates liability to a more reasonable level. Business rates account for some 40% of property occupancy[2] and for some occupiers it is now a larger figure than their rents[3]. This clearly cannot continue.

It is this growth in the amount raised, because of changes in the property markets, reliefs and an increasing tax requirement over the past few years that is causing such grief to business.

The central rating lists contain the rating assessments of the network property of major transport, utility and telecommunications undertakings and cross-country pipelines.

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[1] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/impact-of-business-rates-on-business/written/98940.pdf

[2] https://www.bpf.org.uk/sites/default/files/resources/Who%20pays%20business%20rates%20research%20%28BPF-BCO-BCSC%29%20Final.pdf

[3] https://parliamentlive.tv/Event/Index/18337343-c189-475a-95a2-2531c6fada9a

These are paid centrally and thus are outside the local processes and lists. We believe that this is unfair and that such companies are not making their local contribution.

The 2019 Select Committee report on the *High Streets and Town Centres in 2030* [4] felt that a property-based tax was no longer fit for purpose; "It […] was designed and developed in the past." BIDs and their members across the country similarly have that view and submitted in their paper to the Treasury Select Committee some case study evidence, and some research-based options.

Thus, it is clear that modern business taxation needs to reflect the increasingly varied way of doing business, whether it be bricks and mortar, on-line, professional services, global with large staffing levels, or high added value single person organisations.

Our evidence

We submit further evidence below, structured by the headings in Tranches 1 and 2, as asked for. We are submitting our evidence for both Tranches together, as we feel that they fit together in more a coherent fashion. We believe our response to be pragmatic, realistic and practical.

Tranche 1 information

Reliefs

The current business rates relief 'holiday' for some, but not all, businesses during the Covid-19 crisis shows that government clearly recognises the problems in the current business rates system. But the one-year relief also shows and indeed exacerbates the problem for many businesses, as they have no understanding of what their non-domestic rates costs will be next year.

It has of course been a life saver for many businesses during the current pandemic, and thus needs to remain in place until this Treasury review is completed; in addition to supporting the hospitality, leisure and retail sector, the government should consider whether it has drawn too harsh a line between those sectors receiving support and those not[5].

However, we accept that any long-term business rate holiday is impractical and that the tax will need to be raised in some fashion.

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[4] https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/1010/1010.pdf
[5] London First "Improving the business rates system: tranche one response" – September 2020

Business rate reliefs often appear unfair because they are selective by size and type of business and often their temporary nature does not allow businesses to plan ahead. They are blunt instruments at a time of nuanced needs, when the manner in which businesses operate is changing dramatically.

We recognise that the Small Business rates relief [SBBR] is an important support tool, and indeed many BIDs have a threshold which ensures businesses receiving SBRR do not pay a BID levy. On the other hand, for one third of non-domestic properties not to pay any business rates at all due to SBRR results in a punitive cliff edge as businesses are revalued over time and suddenly become liable and places a greater burden on the large retail units.

We believe that neither property size nor property value are any longer a surrogate for business size or success. The growth in hot desking and work units in originally larger buildings is bringing increasing numbers of small business into SBRR, and the regional variations in rateable values results in a skewed model of the numbers of businesses actually paying business rates. Thus, an increasingly unfair proportion of business rates is falling on fewer and fewer large business properties in particular regions.

The very fact that there are currently 17 different types of business rates relief highlights the issue, with reliefs being added over time as cases and problems emerged. Some are indeed driven by the local authority, but most are not and therefore allow a central government steer in, at times, a blunt and very regional fashion. The 17 different reliefs result in a complex and confusing model. Some properties are eligible for multiple different reliefs, and evidence from BIDs suggests that reliefs vary between authorities. Thus, the relief system is confusing and means that some ratepayers do not understand what reliefs they are entitled to.

For these various reasons there is an argument that business rates relief is inappropriate, and we ask that the Treasury Review consider the removal of most business rate reliefs. There would of course need to be some mediation of the full burden of business rates, although this burden can be reduced by a better designed business taxation model.

We propose as an alternative that the business rates multiplier is mediated each year by the performance of each business in the previous year, as a form of government support for business. This could involve a simple model of the normal multiplier, reduced by factor of 'this year's surplus' minus 'last year's surplus'. This allows a far better targeting of all reliefs, based on business need rather than business type.

Local Authorities

We believe that Local Authorities need to be involved in their local business taxation base. They receive some 50% of business rates and it is a key part of their income stream.

Thus, we believe that Local Authorities have to be able to steer the growth of their local economies and that it is particularly important that they are able to support their independents, creative industries and start-ups, and thus nurture their developing business bases. This could be through a targeted version of the multiplier, and amendments to reliefs.

We believe that it is important that this empowerment allows local authorities to have differential levels of relief and different levels of multiplier, but we must ensure they use these powers to benefit their local business communities.

The business rates multiplier

We believe that Business Rates should be reduced, to become a much smaller part of a portfolio of business taxation, and therefore be a more nuanced tool of taxation raising. Nonetheless, the business rates multiplier is the key driver of the business rates model, and we are suggesting that the multiplier and the relief model be brought together.

The multiplier will need to be set annually, in the light of the government's financial need but clearly the key issue is to reduce the increasing growth in business rates, coming from the increased level of reliefs, particularly small business rates relief, the growth in on-line businesses, the changing size of business property and the increasing proportion of the business rates burden born by large retail units.

It is this list of problems that makes the current business rates model untenable; our local authorities and our businesses need confidence that they have a model that will be sustainable into the future.

Tranche 2

Annual reviews

We are strongly of the view that the model, to be fairer, must move toward annual revaluations. Many businesses point to business rates as a key source of financial stress, and rates are unpopular. But this is in large part caused by infrequent property revaluations which cause major changes to bills: these occur only every five years or so, and therefore rates paid by businesses can jump massively if this has risen significantly in value (this was particularly a problem for high street retailers in the south in the most recent 2015 revaluation). Therefore, any new system should introduce more frequent revaluations, preferably on an annual basis [6].

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[6] https://neweconomics.org/2019/11/funding-local-government-with-a-land-value-tax

Appeals

The Appeals system appeared to fail under the pressure of the 2010 revaluation and many believed that the new on-line appeals system was designed to make appealing more difficult. The justification seemed to be that more small businesses are exempt from rates, and all other businesses can afford to not only pay the full (although often incorrect) amounts in the first place, and also to pay for professional advisors to navigate the complex system. This cannot be right. We understand that there were over 275,000 appeals outstanding for some considerable time from the 2010 revaluation.

As of 31 December 2019, the VOA received 137,360 Checks and 26,690 Challenges. Of those, the VOA had cleared 129,790 (94%) of received Checks and 9,700 (36%) of received Challenges [7]. This leaves businesses struggling, and most certainly needs to be addressed better.

Exploring alternatives to business rates:

We note that at this stage in the review the government is not consulting on the specific design of policies. It is gathering views on how the system currently works and any issues that need to be addressed, and ideas for changes to the taxation of non-domestic property that should be considered.

We also fully understand that the government will need to consider how any changes align with the government's objectives to deliver sustainable public finances; minimise economic distortions and support growth; increase productivity; deliver a tax system fit for the 21st century; and to deliver on the UK's legally binding target to reach net zero emissions by 2050.

However, we do believe that the UK's over-reliance on property taxes in general and more specifically for funding local government creates substantial inefficiencies in the development of commercial property, the commercial decisions of businesses and the planning decisions of local government, and thus some alternative sources of income for local authorities are necessary.

Council Taxes

We note that the review will not consider residential property taxes, including Council Tax, but we believe that this focus solely on commercial property taxes is unrealistic. In 2017-18 local authorities collected £28.0 billion in council tax, and £24.5 billion in non-domestic rates. Domestic property was last revalued in1991, and we believe that it is

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7https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/869057/CCA_Interim_Review_-_February_2020.pdf this reducing proportion by capital asset value of council taxes that is putting an unfair burden on businesses.

Research by Regeneris for the British Property Federation[8] showed that in 2015, while business rates rose about 80 percent, compared with the tax take of Council Tax, the asset base of commercial property has a value just one sixth of that of residential property. Recent work by the Institute for Fiscal Studies [9] suggest that the most valuable properties in 1991 (Band H) attract just three times as much tax as the least valuable properties (Band A), despite being worth at least eight times as much in 1991 and even more now, since prices have risen most in areas where they were already highest

This appears unfair and suggests a very skewed taxation base. The average of the highest H band annual Council Tax is £3,343, based on a capital value of £320,000 in 1991. We see no reason why an increase in the number of the Council tax bands cannot be considered, to reflect that huge increase in property value since 1991and take some pressure off the business rates contribution. This would not be any sort of 'review', merely an increase in bands to reflect the increased property values over a 29 year period.

Local sales tax

Introducing a new local sales tax would create a system which performs well with regards to some tenets of good tax design: ease of collection, ability to fund local services, mitigate against avoidance, ability to pay and the economic impact.

It can of course be regressive, for those citizens who spend a higher proportion of their disposable income on purchases rather than savings, and it will not collect tax from businesses that don't sell products or services, and is thus vulnerable to changes in the business demographic in towns and cities.

Local sales tax (implemented with a VAT system) is thus a potential replacement, or adjunct, for business rates, both in terms of working for business and local government.

It can tackle the challenges of an information economy, taking into account the changing nature of high streets, retail and online businesses.

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.

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[8] https://www.bpf.org.uk/sites/default/files/resources/Who%20pays%20business%20rates%20research%20%28BPF-BCO-BCSC%29%20Final.pdf
[9] https://www.ifs.org.uk/publications/14761

It has been suggested that a local sales tax of 2% [10] will raise the same amount as business rates and level the playing field between online and offline retailers.

Local devolution of sales taxes

Some businesses have suggested that a more sophisticated model might allow shoppers buying items in some areas paying a purchase tax based on the value of that area, reflecting a tax system similar to the USA.

There could be a tax rate from 2% to 15% in different local authority areas. Similarly, this model could be applied to online shopping, by looking at the buyer's postcode and adding the applicable tax at checkout. This would bring back a more level playing field, giving traditional retailers a more equitable environment.

De-couple London's business rates system from the rest of the country

London's property market has distorted the national business rates system, leading to disproportionate increases in rateable values for many businesses, and an ever-increasing proportion of the national business yield coming from a relatively small number of properties in central London[11]. Decoupling London will enable the system to take account of London's distinct property market and prevent the capital's robust property market from continuing to distort the operation of the national system.

The revaluation that took effect on 1 April 2017 saw a 9.6% increase in the RV of commercial property in England driven largely by a 23.7% increase in London[12]. This exposed an increasing north-south divide or, more accurately, a London-England divide. The Institute for Fiscal Studies has projected that revenue from London would increase by around £700 million whilst revenue from the rest of the country would fall by £1.2 billion as a result of the revaluation[13]. Westminster City Council collects over £2.2 billion annual business rates. This is 25% of the total £8 billion London business rates and 7% of the total £30 billion national business rate income[14].

Online and e-commerce business

In this online world, business rates give a major competitive advantage to online businesses. They generally have property in locations with a low rent per square foot,

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10 http://www.vanishinghighstreet.com/wp-content/uploads/2020/06/Grimsey-Covid-19-Supplement-June-2020.pdf
11 London First "Improving the business rates system: tranche one response" – September 2020
12 VOA, Statistical Release, 6 October 2016 – Non-domestic Rating: Change in Rateable Value of Rating Lists, England and Wales, 2017 Revaluation
13 David Phillips, Institute for Fiscal Studies, 30 September 2016 – Business rates revaluation reveals growing gap between London and the North (Phillips)
14 NWEC. West End International Centre Business Rates brief

with a low rateable value and yet have a much higher turnover and compete with 'bricks and mortar' businesses unfairly across the country.

Business rates tend to strengthen the competitive advantage of online retailers because of the historical cost base of high street shops. The typical London shop is facing a 14 per cent rise in rates, and the average shop across the country an 8.5 percent rise, while online retailers operating from out-of-town warehouses will only pay an extra 2 per cent.

Thus, 'bricks and mortar' businesses are being heavily penalised at a time when the role of the high street, experiential retail and curated public space are all being explored and celebrated by local and central government.

Reducing the inequity between high street and online retailers could radically improve the existing business rates system. However, this recommendation must be considered alongside the proposals for full-scale reform. Retail contributes £7 billion business rates annually, more than any other sector. A new tax system that improves the tax burden between bricks-and-mortar and online businesses will need to balance the burden on those businesses which are a hybrid.

Many retailers and online service providers occupy high street shops and offices alongside their online presence. It is imperative to design a tax system that properly reflects the value of online sales and high street sales, alongside the changing nature of localising taxes to fund local government. Many small independent traders moved into the on-line e-commerce sphere during the lockdown and it is imperative that any new tax system doesn't now penalise them.

Given that an online sales tax would be unlikely to raise revenue sufficiently to replace business rates, we expect that any such tax would be part of a new sales tax and exist alongside very much reduced business rates.

Capital Value taxes and Property owner taxes

There is most certainly much interest in a Capital Value Tax, and it has been described and analysed[15] in some detail. Pieces of land gather their value from their location rather than the quality of the development sitting on top of them. What gives the location its value is the surrounding infrastructure; land tends to be more valuable in the centre of a city with high footfall, or areas with good transport infrastructure, such as schools, hospitals.

Of course, whether business rates is an occupier tax or an owner tax is dependent on whether the person who pays the tax in the literal sense is the same as the person who

[15] https://neweconomics.org/2019/11/funding-local-government-with-a-land-value-tax

bears the burden of the tax. The Regeneris report [16] concluded that over a 3 year period 75% of a tax increase is borne by the owner as it is capitalised into rent, in this case rent reductions. There is some, but limited evidence, of the contrary too, mostly through analysis of the original enterprise zones, but that might be distortive because they were zero rated.

Property owner taxes

A change in the liability for the tax, from occupant to owner, is the funding scheme in many cities and BIDs around the world, particularly the USA. It can work well and results in the local tax being paid by the owner, who generally has a greater long-term commitment to improvements in the local area and is keener on schemes that improve capital value.

On the other hand, a move from an occupier tax to an owner tax raises major issues of data and currency. There seems to be no accurate current listings of the capital value of land or property, and such values are changing dramatically in the current climate.

One suggestion is that a hybrid option could operate, in which the balance between land and property taxation could shift over time. This could be expanded to include undeveloped land with planning permission, which would improve the economic efficiency of the tax, as well as increasing receipts.

Property owner BIDs

There have been suggestions over Property Owner BIDs for some years. The provisions for Property Owner BIDs at primary legislation level were incorporated into the Business Rate Supplement (BRS) Act 2009, which allowed for Property Owner BIDs, but only where a BRS and an occupier BID were already in existence. This meant that Property Owner BIDs were only applicable in London (where the only BRS exists). This has enabled invaluable testing of the model through its introduction by the Heart of London Business Alliance and the New West End Company.

In February 2017 the first draft of the Local Government Finance Bill (2017) was published and included the proposal that Property Owner BIDs should be extended to all areas within England. This would be achieved through the removal of the requirement for a BRS to be in place. The requirement for there to be an existing BID funded by occupiers remains. Sadly, Parliament did not receive the bill because of the election and we believe that this proposal needs to be brought back by way of legislation.

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16 https://www.bpf.org.uk/sites/default/files/resources/Who%20pays%20business%20rates%20research%20%28BPF-BCO-BCSC%29%20Final.pdf

Many existing BIDs are taking on an enhanced role within the economic development arena and are playing a dominant part in 'place-shaping' alongside their primary role of applying additional services to a locality. Whilst many BIDs have sought voluntary contributions and involvement from property owners, the results have been patchy and there is no mechanism that allows property owners to ensure that they engage and contribute. This is not to say that many existing BIDs have not secured long term and widespread engagement and contributions from their property owners. Nevertheless, for many, on a voluntary basis the ability to deliver a comprehensive and sustainable service is restricted. It is important to note that many Property Owners want to play their part in wider improvement schemes and the existing BID Regulations (other than in London) do not allow them to do so

We believe that any move toward Property Owner taxation needs to be linked to Property Owner BIDs, and where such BIDs exist the property owner tax would be spent via the Property owner BID. This would ensure that the monies raised matched the needs of the local business community.

Ratings lists

One concern of many BIDs relates to the availability of current property lists, and evidence to support capital valuations, as well as the challenge of defining who would be liable for a tax based on ownership and ensuring compliance in cases where they are located outside the UK.

BIDs are currently balloted quinquennially, using the rateable lists of occupiers. The supporting legislation and regulations are framed around the non-domestic ratings lists; there would be major concerns if accurate lists were not available to support the legislation.

Conclusion - A portfolio approach.

It doesn't seem appropriate for an evidence paper such as this to come up with specific solutions, and at the moment most BIDs are dealing with the Covid-19 pandemic in their towns, cities and business communities.

Nonetheless, it seems clear to many that modern business taxation needs to reflect the increasingly varied way of doing business, whether it be bricks and mortar, on-line, professional services, global with large staffing levels, or high added value single person organisations.

A business taxation model must reflect those varied ways and be open to change over time as businesses change and develop.

Currently businesses are liable for a group of taxes: Corporation Tax, National Insurance, Value added tax, and Business Rates.

We propose that a Sales Tax, which would clearly include an On-line sales tax, and a Capital Value tax be added to this portfolio, and that the Treasury explore an approach based on a portfolio of business taxes. This would allow every business to contribute their government tax ‘give’ on a way that reflects the way that they do their business in any given year, and allow the Treasury to collect that which is appropriate in a fair and equitable manner, matching companies’ ability to pay with the needs of local and central government.

We believe that this is achievable by way of current data collection methods and would be transparent and fair.