LEADERS IN BUSINESS RATES

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GERALD EVE'S BUSINESS RATES UPDATE
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BUDGET 2016

Businesses have waited 832 days for the results of the Government's review of business rates, since it was launched in December 2013's Autumn Statement. The Chancellor announced a number of business rates measures in his Budget 2016 Statement but rather than a fully considered structural review of the system, they gave the impression of a disjointed approach, ranging from a significant reduction in costs for many small businesses to rates relief for public toilets.

Key measures include:

Removing many small businesses from rating

His flagship announcement was a significant enhancement to the small business rates relief scheme which he is making permanent from April 2017 rather than extending it each year on a 'temporary basis', as it has been since 2010.

In future, all qualifying small businesses (in effect those that occupy only one property in England) will pay no rates if the Rateable Value is £12,000 or less, doubled from the current threshold. Relief on a sliding scale will be available for RVs up to £15,000 and those with assessments up to £51,000 will pay rates based on the small UBR multiplier, thus avoiding a 1.3p UBR supplement paid by large properties.

The Government claims that over 600,000 small businesses will pay no rates at all from 2017.

A more responsive system on the horizon

The relevance for larger businesses of the removal of so many small properties from the system is that it should assist a move to more frequent revaluations, which we and many business organisations have long called for. The Government intends to implement these at least every three years from some as yet undetermined date and it plans to issue a further consultation paper shortly.

Frankly, given the overwhelming business support for a system whereby rates assessments and thus bills respond more quickly to changed economic circumstances, there should be no need for further consultation. We believe there is a distinct risk that the next revaluation following that on 1 April 2017 will not be in 2020.

The significant further improvement we would wish to see is a shortening of the present two year gap between the valuation date for the new rateable values and the date they come into effect. With the benefits of modern IT, the Valuation Office Agency ought to be able to collect and analyse rental evidence far more quickly. We would like to see a revaluation in 2020 based on values as at 1 April 2019, with an ambition to deliver annual revaluations as soon as possible thereafter in order to deliver a truly responsive system.

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Key points:

But no signs of an early reduction in the rates burden for larger businesses

Welcome though more frequent revaluations are, they do not, per se, lead to a reduction in rates bills. Revaluations are a redistributive exercise with the Uniform Business Rate adjusting to ensure the same total rates take. We will continue to lobby for a fixed UBR, so that bills do fall directly in proportion to any reduction in rental values.

UK businesses rates are the highest local property tax worldwide and the Chancellor has eschewed the clarion calls to reduce them, relying instead on the proposals he announced last year to devolve aspects of business rates to local authorities and empower them to cut rates in their area. The only direct action he announced in the Budget was a change to the inflation statistic used for the annual uprating of the UBR from RPI to CPI, a welcome measure which we have long campaigned for. It is hugely disappointing, however, that this change will not be effected until 2020, by which time businesses will have paid an additional £4 billion as a consequence of RPI normally running at about 1% above CPI.

Devolution – evolution rather than revolution

The major structural change arising from the Government's business rates review is that already announced at the **2015 Autumn Statement**, to devolve aspects of the business rate to local authorities in 2020. The theoretical possibility that rate rich authorities might be able to reduce their local business rates has already been criticised by businesses as inadequate and unlikely to lead to a lessening of the burden.

The Chancellor has now announced that he plans to pilot the new devolved approach in Greater Manchester and Liverpool City Region and will also increase the share of business rates retained in London. At the dispatch box he claimed that London will benefit from full retention of its business rates from April 2017, but we doubt it's as simple as this. Instead we anticipate that London councils will be permitted to retain an increased share of rates collected in exchange for taking on additional responsibilities, and will be able to keep all growth in revenues. Without redistribution of some of London's business rates revenues to relatively poorer authorities, many councils will simply be unable to meet their spending needs. As ever, the devil will be in the detail with a consultation promised in the summer.

Disappointment for industry

The Chancellor ignored the united call from UK manufacturers for reform which would have allowed them to compete internationally on a more level playing field, by exempting from business rates plant and machinery used on their premises.

The last time that the items of P&M included in rates assessments were reviewed was in the early 1990s; since then the world of manufacturing has changed out of all recognition. Businesses are being penalised for investing in their processes and often these enhancements are provided purely to meet environmental requirements rather than contributing to an improved profit line. We are disappointed that the Government does not seem to be prepared even to consider this issue.

And at the other end of the spectrum…

There were two further changes announced which hardly qualify as structural or radical. Firstly, a new two year relief scheme providing up to a £1,500 annual discount for offices occupied by local newspapers and, secondly, a power for local authorities to provide rates support for publicly owned public lavatories. What a relief!

What does this mean for ratepayers in Wales and Scotland?

The Budget measures relate to England only as business rates are devolved to the Welsh and Scottish governments. Both are reviewing the system in their countries and we are actively involved from our offices in Cardiff and Glasgow each of which has close links to the devolved administrations.

Gerald Eve LLP is the pre-eminent business rates adviser. We currently advise a quarter of the FTSE100 companies on rating matters. We have saved our clients, occupying over 70,000 properties throughout the UK, more than £2bn in rates liabilities over the last five years.

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