Barclay Review of Business Rates

General Features

01 November 2016

The CIOT responded to a call for submissions issued by the Barclay review group. The group has a remit to make recommendations to enhance and reform the business rates system in Scotland. It issued the call for submissions on how to re-design the business rates system in order to inform their report. The CIOT response does not recommend a particular course of action or policy for the Scottish Government to adopt; instead we set out some guiding principles and draw attention to practical issues that should be considered.

The Scottish Government set up the Barclay review group to make recommendations that seek to enhance and reform the business rates system in Scotland to better support business growth and long-term investment and reflect changing marketplaces. It is expected to report to Scottish ministers in July 2017. To inform the report, in July the group called for submissions on how to re-design the system.

Business rates (more properly known as non-domestic rates) are local taxes on the occupation of non-domestic property; the revenues help to pay for local council services. Business rates in Scotland have never been reserved to the UK Government. Revenues are pooled nationally within Scotland and redistributed among councils according to an agreed formula.

There was only one question: ‘How would you re-design the business rates system to better support business and incentivise investment?’ We used our response to set out some guiding principles and to consider practical issues that might arise; we did not recommend a course of action or policy for the Scottish Government to adopt.

Before examining the current business rates system in Scotland and discussing some options, we explored some principles and other issues that need to be borne in mind throughout the review. First, we think that due regard should be paid to the Adam Smith principles. This is in part because we agree with them, but also because

the Scottish Government has committed itself to a tax system that has regard to them. We also set out the CIOT objectives for a good tax system, emphasising that these also need to be kept in mind.

As well as such guiding principles, we noted that more practical issues need to be dealt with. We suggested that, before any final decisions are made about a re-design, research is carried out to investigate whether and how a particular proposal would support the policy objectives, and what the consequences of this would be. In addition, if the system is to be re-designed, there should be consultation with taxpayers and other stakeholders. To minimise disputes, it is important that the law and the rules for implementation and application are clear. Further, consideration needs to be given to the mechanics and practicalities of collection and administration.

Later in the response, we explored broadly some possible alternatives, and noted that the Scottish Government would need to determine whether or not it wished to continue with a tax based on property. We noted that whether any particular option should be adopted will depend on the extent to which it assists the policy objectives of the Scottish Government. Each option will have different advantages and disadvantages; one way of assessing options would be to consider how they align against the Adam Smith principles and whether there is an option that strikes a reasonable balance between them.

Finally, we pointed out that however the business rates system is re-designed, it will be important to ensure that taxpayers are able to access information easily. Good communications and information will be particularly important if there are significant changes to the business rates system. This will help to maintain transparency and may also assist in ensuring constructive engagement and resolving disputes.

The CIOT submission is available on the CIOT website.