Transforming business rates: CIOT response

Property Tax | OMB | Large Corporate



23 April 2025

The CIOT has responded to the government's discussion paper on Transforming business rates.

The government's objectives for reforming the business rates system in England are to protect the high street, encourage investment and create a fairer system. By 'fairer', the government means a system in which everyone pays their share and valuations are responsive to economic reality.

A broad theme of our engagement with business rates reform is that while historically business rates were regarded as more of a property cost, they are now increasingly recognised as part of the wider tax system, albeit one charged by reference to rental value rather than profit. There is therefore a case for considering business rates reform holistically in the context of the wider UK tax regime, while also recognising that business rates are integral to local government financing. Considering the relative importance and interaction of business rates and other tax

factors (such as capital allowances) as part of the discussion is therefore a welcome part of a more holistic approach by the government.

We thought that the introduction of permanent lower multipliers for retail, hospitality and leisure (RHL) properties from April 2026/27 ends uncertainty about what future level of relief may be available to the sector annually through temporary reliefs. A stable permanent regime is better than a series of temporary measures. However, there is a clear need for ongoing evaluation of the changes (and of current reliefs) to ensure they meet their objectives.

However, the ability to introduce lower and higher multipliers for properties based on rateable value adds new cliff edges. Cliff edges are likely to be contrary to the government's objective of a 'fair' business rates system.

The additional lower multipliers (from 2026/27) based on property use (qualifying RHL use) will add complexity to the business rates system for ratepayers and for local government in terms of valuation points and the nature of property use.

In terms of reliefs, we question whether awareness of improvement relief is sufficiently high among small businesses. The mechanism for granting the relief (demonstrating to the Valuation Office that the qualifying works condition and the occupation condition are satisfied followed by the issue of a certificate) imposes administrative burdens on the ratepayer and the Valuation Office.

The new obligations to notify changes in business rates liability should mean that the fact that improvements are being made will be notified to the Valuation Office. An easier approach for the ratepayer, and one more consistent with the wider tax system and 'self-declaration', would allow the claiming of the relief at the same time as the information notification is made.

The higher multiplier for properties with a rateable value of £500,000 is intended to fund the reduction in revenue from the new lower multiplier(s). However, we note that some non-domestic properties with rateable values of £500,000 or above are public buildings such as government buildings, and therefore the business rates liability is effectively funded by the government and the public sector. It would therefore appear that the 'base' available to fund the lower RHL multipliers is potentially inflated. We suggest that consideration might be given to evaluating the administrative and transparency benefits of removing public buildings from the rating system altogether.

A commitment to review the thresholds at the point of revaluation, particularly if the new multiplier for rateable value of £500,000 or above is recording a surplus, would appear consistent with the government's principles of a fair system and of encouraging investment.

The multipliers increase with inflation each financial year as measured by the Consumer Price Index (CPI) in order to maintain revenues in real terms but this can create adverse results in times of volatility. For example, in September 2023 CPI was 6.7% but by the time new rate bills came out in March 2024 it was half that amount. Consideration might be given to an alternative mechanism to smooth out short-term volatility in CPI.

The government's 'forward look' for business rates reform (see tinyurl.com/4cx72sxj) published on 17 February 2025 is helpful and welcome. We note that it covers announcements at Autumn Budget 2024 onwards and therefore does not include the information duty and transparency reforms legislated for in the Non-Domestic Rating Act 2023 that will be rolled out from 2026 onwards. For completeness, we think it would be helpful to include these reforms in the timeline to remove any uncertainty arising from their omission.

The government's proposals for reform of business rates are understood to be ***within*** the current business rates system. There is no indication in the consultation document of an intention to consider a wholly new system of business property taxation or even fundamental structural reform of the current business rates regime. Such reform, affecting the tax base and/or the incidence of charge, could have significant effects, such as on lease structures, the rent rates equation within the rental market and property investment more widely. It would be helpful therefore if the government sets out a broad statement or mission statement on the ***scope*** of intended reform.

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