Business rates reform

OMB | Large Corporate | Property Tax

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In responding to the ‘Business Rates and Investment’ Call for Evidence, the CIOT’s core message is the need for certainty and predictability to promote investment.

In our response, the CIOT welcomed HM Treasury’s Call for Evidence to inform the reform of business rates in England. However, it is unclear to us whether the government is still committed to a **new** system of business property taxation (as set out in Labour’s manifesto in 2024) or whether only the current business rates system is under consideration. We suggest that a broad statement of the scope and timing of the intended reform would provide certainty.

The government records its commitment to a progressive business rates system, which it equates with businesses occupying higher value properties paying more. Progressive tax rates are usually concerned with the redistribution of income and reducing the tax incidence on those with a lower ability to pay. However, for a property tax based on rental value, the link with progressivity is not as clear to us. We suggest that the risk of unintended consequences warrants further research.

Incidence: owner or occupier?

The Call for Evidence asked for views on the benefits and downsides of a system where the property occupier is liable for business rates, compared with one where liability falls on the owner.

After detailing the pros and cons, we concluded that as there is an inverse relationship between rental values and business rates (higher business rates will, to some degree, be reflected in lower rents and vice versa), it seems reasonable to conclude that some of the effective economic cost of business rates already falls on the owner. Therefore, transferring liability to the owner may not be as significant as it first appears in terms of incidence, at least in the longer term.

Changing the incidence of charge to the owner could have wide-ranging effects in transition, requiring a clear timetable and full transparent consultation.

Slab v slice

The Call for Evidence asks about the wider benefits or downsides of a ‘slice’-based tax as opposed to the current largely ‘slab’-based system. We suggest that the cost and revenue effects of transitioning from a slab to a slice-based system would require evaluation in the context of the current requirement for revaluations to be fiscally neutral.

We note also that where thresholds are not uprated for inflation, fiscal drag is a feature of both the current slab system and a slice-based tax. A commitment to review the thresholds at the point of revaluation, particularly if under the current system the new multiplier for rateable value of £500,000 or above is recording a surplus, would seem consistent with encouraging investment.

Improving administration and communication

We suggested the following:

- a single comprehensive guide on how business rate reliefs are applied, to provide consistency and clarity;
- consideration should be given to how proposed changes to valuation methodology are managed by the Valuation Office, to provide certainty for affected sectors; and

- all the data underpinning a valuation should be presented at one level, but with a help sheet one click away that explains how rents are analysed, adjusted to the Antecedent Valuation Date and rateable value determined.

The full CIOT response is available here: www.tax.org.uk/ref1626.

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