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Transforming Business Rates

Response by the Chartered Institute of Taxation

1. Executive Summary

1.1. The consultation addresses the government's interest in reforming the business rates system in England, with objectives to protect the high street, encourage investment, and create a fairer system.

1.2. The CIOT advocates for a holistic approach to reform that considers business rates as a part of the wider tax system.

1.3. 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. There is a clear need however for ongoing evaluation of the changes (and of current reliefs) to ensure they meet their objectives.

1.4. In particular, the ability to introduce lower and higher multipliers for properties based on rateable value adds new cliff edges. Cliff edges tend to give rise to disproportionate adverse and unintended consequences that are likely to be contrary to the government's objective of a 'fair' (defined as one in which everyone pays their share and valuations are responsive to economic reality) business rates system.

1.5. Furthermore the additional lower multipliers (from 2026/27) based on property use for the first time (qualifying retail, hospitality and leisure use) will add complexity to the business rates system for ratepayers and for local government in terms of valuation points and property use. Multiple rates make the system difficult to understand for ratepayers.

1.6. We suggest consideration might be given to evaluating the administrative and transparency benefits of removing public buildings from the rating system altogether.

1.7. This consultation on the government's proposals for reform of business rates is understood to be within the current business rates system. There is no indication of an intention to consider a new system of business property taxation or even fundamental structural reform of the current business rates regime affecting the tax base and/or the incidence of charge. Wide-raging reform of this nature 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.

2. About us

2.1. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

2.2. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

2.3. The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

2.4. Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

2.5. The CIOT's Business Rates Working Group consists of rating specialists and tax advisers including members in industry.

3. Introduction

3.1. The consultation sets out the government's areas of interest for reform of the business rates system in England[1] during the course of this Parliament. The policy objectives are:

- Protecting the high street.
- Encouraging investment.
- Creating a fairer system.

3.2. The government defines a fair business rates system as one in which everyone pays their share and valuations are responsive to economic reality.

3.3. A broad theme of our engagement with business rates reform is that while historically business rates were regarded as 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 (and

[1] Business rates are fully devolved to Scotland, Wales and Northern Ireland.

council tax) 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.

3.4. Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

3.5. Some of the areas of interest to the government in the discussion document concern the effect of the business rates system on investment decisions and on the high street. The economic effects are outside our area of expertise. Therefore we have not commented on all the detailed areas raised.

3.6. We do not comment on rates of tax (multipliers) as these are largely matters for the government. However we comment on the mechanism for setting/applying rates of tax and any potential unintended consequences.

3.7. It is not clear at what stage of the government's tax policy making process this consultation is taking place (see our further comments at paragraph 9.4 below).

4. Incentivising investment and growth

4.1. The Non-Domestic Rating (Multipliers and Private Schools) Bill provides for the introduction of new lower (below the standard multiplier) multipliers for 2026/27 for retail, hospitality and leisure (RHL) properties funded by a new higher multiplier for properties with a rateable value of £500,000 or above. The level of the new multipliers for the 2026/27 financial year will be announced at the Autumn 2025 Budget. The Explanatory Notes to the Bill indicate that no Impact Assessment has been prepared for the Bill as it amends a local taxation regime and amendments to any tax are excluded from the definition of a regulatory provision.[2] However, the government indicated at committee stage that when the new multipliers are set the Treasury intends to publish analysis of the effects of the new multiplier arrangements. We think that it will be necessary to monitor the behavioural effects against the policy intent to ensure there are no unintended consequences such as discouraging anchor tenants in the high street.

4.2. The announcement of permanent lower multipliers for RHL properties from April 2026/27 ends uncertainty about what future level of relief may be available to the sector annually through temporary reliefs. There are clear disadvantages, in terms of stability and certainty, of temporary reliefs even if often extended or repeated in a slightly different form.

4.3. We welcome the intention to define the meaning of a qualifying RHL hereditament in secondary legislation rather than in guidance (as with the current Retail, Hospitality and Leisure Relief Scheme[3]) as that should also provide greater certainty (subject to 4.4 below).

[2] EN 46 page 9.

[3] https://www.gov.uk/guidance/business-rates-relief-202526-retail-hospitality-and-leisure-scheme

4.4. However, the additional lower multipliers (from 2026/27) based on property use for the first time (qualifying RHL use) will add complexity to the business rates system for ratepayers and for local government in terms of valuation points and property use. Multiple rates make the system difficult to understand for ratepayers. Billing authorities will need to attribute the new multipliers to relevant assessments in 2026/27 accurately based on VOA descriptions. Where the descriptions are inaccurate, or in dispute, or valuations are close to a threshold, there is potential for an increase in appeals by ratepayers. Some hereditaments described as non-RHL in the rating list may be qualifying RHL businesses, such a car repair garage for domestic cars, or a soft play area in a former industrial unit. We suggest that these categories of hereditaments are flagged with a view to identifying those that may qualify for the lower multipliers, or at least enable a quicker response to a potential challenge of the ratings assessment by ratepayers.

4.5. 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.

4.6. We suggest consideration might be given to evaluating the administrative and transparency benefits of removing public buildings from the rating system altogether.

4.7. There is no mechanism for uprating the existing and new thresholds as rateable values increase. Static thresholds will bring properties above thresholds and subject to higher multipliers through 'fiscal drag' as rateable values increase. 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 encouraging investment.

4.8. The multipliers increase with inflation each financial year as measured by CPI. Whilst the rationale for this is understood to be to maintain revenues in real terms, 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.

5. The presence of cliff-edges in the system

5.1. For the financial year 2024/25 there are two multipliers;

- the standard multiplier (54.6p in the pound) and
- the small business multiplier (49.9p in the pound) that applies to properties with a rateable value of £15,001 to £50,999 .

The Non-Domestic Rating (Multipliers and Private Schools) Bill provides for the introduction of new multipliers for 2026/27. As noted above, these are two new lower multipliers for RHL properties and a new higher multiplier(s) for properties (including RHL) with a rateable value of £500,000 or above. The new tax rates will be set in the 2025 Budget. The appropriate multiplier will then apply to the whole of the rateable value over the relevant threshold.

5.2. The ability to introduce lower and higher multipliers for properties based on rateable value thresholds adds new cliff edges to the current system.[4] Cliff edges tend to give rise to disproportionate adverse and potentially unintended consequences including potentially :

- Added complexity because businesses need to consider the cliff edge thresholds;
- Distorting economic and investment decisions at the margins;
- Contravening the government's objective of 'creating a fairer system'. Imposing significant additional tax liability owing to a £1 difference in rateable value, when viewed in isolation, breaches this principle.
- The risk of avoidance in the form of artificial suppression of rateable value because of the large increase in the amount of tax payable as soon as the rateable value exceeds a threshold by as little as £1.

5.3. In the wider tax system Stamp Duty Land Tax was changed from a 'slab' to a 'slice' [5] basis in 2014 for residential property and in 2016 for commercial property to address these kind of distortions. In a slice system only the proportion of the rateable value that exceeds a threshold would be subject to a higher multiplier.

5.4. Any change to a fully slice system for business rates should be evaluated in the context of the move to more frequent three yearly revaluations that should mean economic changes and rental movement between property types, locations and thresholds are picked up more quickly.

6. Reliefs

6.1. *The efficacy of improvement relief*

6.2. Improvement relief was provided for by the Non Domestic Rating Act 2023 following consultation by the previous government[6]. The relief applies to improvements that are completed on or after 1 April 2024 and generally provides 12 months of relief. The previous government proposed that the relief would be reviewed in 2028, a commitment we welcomed as we are in favour of systematic transparent post-implementation review of tax reliefs generally to ensure they are delivering their objectives.

6.3. The stated policy intention was to 'support ratepayers investing in their own active businesses and ensure we do not divert support to property developers, landlords improving their asset or businesses which have merely inherited improvements from previous occupiers'. One of the conditions therefore is for the same occupier during the period of works to ensure it is the occupier that makes the improvements that benefits from the relief. Improvement relief is not available for unoccupied hereditaments. It is difficult to comment on the scope of the existing improvement relief without confirmation that the stated policy intent is supported by the government in terms of what the relief is intended to achieve.

6.4. The relatively short time for which the relief has been available also means any interim evaluation may be limited. A similar relief has operated in Scotland[7] for a longer period – from 1 April 2021. It may provide some indication of the efficacy of this type of relief albeit in a different geographical context.

[4] The new permanent RHL lower multipliers will replace the existing RHL relief that includes a cash cap of £110,000 per business. The change also therefore removes an existing cliff edge.

[5] In a 'slab' system a single tax rate is paid on the entire purchase price (in the case of SDLT) or rateable value (for business rates) once a threshold in exceeded. In a 'slice' system successive bands of the purchase price/rateable value are taxed at increasing rates).

[6] https://www.gov.uk/government/consultations/business-rates-improvement-relief-draft-regulations

[7] https://www.mygov.scot/non-domestic-rates-relief/accelerator-relief

6.5. We question whether awareness of improvement relief is sufficiently high among small businesses. Leaflets put in with the rates bills may not be comprehensive or targeted and perhaps not always read. Small businesses tend to simply accept the rateable value assessment. Consistency of application and better guidance through a single comprehensive guide would certainly help with awareness (see 6.9 below).

6.6. In terms of process and simplification, the mechanism for granting the relief (demonstrating to the VOA that the qualifying works condition and the occupation condition is satisfied followed by the issue of a certificate) imposes administrative burdens on the ratepayer and the VOA. The new obligations to notify should mean that the fact that improvements are being made will be made known through the notification of any changes to the property so the VOA will have the information. 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.

6.7. *The impact of losing Small Business Rates Relief (SBRR) on expansion to a second property*

6.8. SBBR is a significant mandatory relief in revenue terms and therefore we think a systematic regular evaluation by government against the intended objective is essential including the impact on business expansion.

6.9. *Administration of reliefs*

6.10. More widely, we suggest a more systematic transparent post-implementation review of business rates reliefs[8], particularly those with economic objectives without time limit should be undertaken by the government to ensure reliefs meet their objectives and to promote predictability and stability. The National Audit Office report on 'Tax measures to encourage economic growth'[9] concluded that the number and cost of tax reliefs makes administration a significant task, and there are too many examples where these reliefs either do not achieve their economic objectives or are subject to significant error and fraud. Although the NAO's review did not cover business rates, the recommendations in the review are in principle relevant to business rates reliefs. We note that evaluation of reliefs is also one of HMT's areas of research interest[10].

6.11. There is a perception that business rates relief administration sometimes lacks professionalism with vague statements such as 'we may award the relief' instead of setting out the objective criteria. Currently businesses find it difficult to know what reliefs they are eligible for, and local authority guidance on reliefs can be limited and vary between billing authorities. This lack of transparency and consistency increases administrative burdens and adds complexity for businesses, particularly for those operating across local authorities. The Treasury Committee has previously recommended that the Ministry for Housing, Communities and Local Government (MHCLG) should work with all billing authorities to create a single comprehensive guide on how business rate reliefs are operated by the individual billing authorities to provide clarity for businesses on what reliefs they may be eligible for, and what steps must be taken to claim them. We endorse this recommendation for the statutory reliefs.

6.12. Section 47 of the Local Government Finance Act 1988 provides a discretionary power for billing authorities to reduce the business rates of any local ratepayer, subject to certain conditions including subsidy control provisions. Historically the government (MHCLG) published guidelines with principles the billing authorities could use to draw up guidelines. We suggest it would be beneficial for both ratepayers and billing authorities

[8] https://www.gov.uk/government/statistics/national-non-domestic-rates-collected-by-councils-in-england-forecast-2024-to-2025/national-non-domestic-rates-collected-by-councils-in-england-forecast-for-2024-to-2025#reliefs-to-be-granted-by-local-authorities-in-2024-25

[9] https://www.nao.org.uk/reports/tax-measures-to-encourage-economic-growth/

[10] https://www.gov.uk/government/publications/hm-treasury-areas-of-research-interest

to re-state these principles to provide certainty and clarity of the framework in which the discretionary power operates for all stakeholders.

7. Tackling avoidance and evasion

7.1. We welcome the government's intention to evaluate the change to the reset period to three months in order to reduce abuse of empty property relief. There is very little published data on existing mitigation schemes and tax leakage. Business rates are not included in the tax gap. We suggest an evaluation of the business rates tax gap is required in the same way as HMRC estimates the tax gap for taxes it administers. This will allow the measures needed to address abuse (and the upcoming consultation on adopting a General Anti Avoidance Rule for business rates) to be considered in that context and evaluated accordingly.

8. Delivering reform

8.1. As the discussion document notes, there is substantial ongoing work to move to the three yearly revaluation cycle and deliver reform. It is essential that the VOA is adequately resourced to carry out the reform programme.

9. Other suggested improvements

9.1. Any change to the VOA's guidance on valuation methodology for a particular sector is likely to have significant consequences for the sector and therefore for investment. Consideration might be given to how proposed changes are managed by the VOA including the benefits of early consultation with the sector and a commitment that changes will not be retrospective to provide certainty and stability for business.

9.2. The government's 'forward look'[11] published on 17 February 2025 is helpful and welcome. We note 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 and to remove any uncertainty arising from their omission.

9.3. We note the opening statement in the discussion document (at 1.1) that the government considers *'The business rates system continues to hold many advantages over other types of tax: rates are easy to collect and provide a stable source of revenue to local government.'* Consultation on the government's proposals for reform of business rates is therefore understood to be within the current business rates system as opposed to an intention to consider a wholly new system of business property taxation or even fundamental structural reform of the current system affecting the tax base and/or the incidence of charge. Wide-raging reform of this nature 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.

9.4. We value a clear and transparent approach to tax policy making as it increases predictability, stability and simplicity in the UK tax system. The forward look helps to set out the programme of stakeholder engagement however it is not clear how this accords with the tax policy making process published in 2017[12] under a previous government, if still applicable.

10. Acknowledgement of submission

[11] https://www.gov.uk/government/publications/business-rates-forward-look/business-rates-forward-look

[12] https://www.gov.uk/government/publications/the-new-budget-timetable-and-the-tax-policy-making-process/the-new-budget-timetable-and-the-tax-policy-making-.

10.1. We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

24 March 2025