

Digitalising Business Rates (DBR): connecting business rates and tax data

Response by the Chartered Institute of Taxation

1 Executive Summary

- 1.1 HMRC are consulting on how to join up business rates data (held by the 309 billing authorities in England) with centrally held HMRC tax data to better target business rates policy and compliance, and to allow businesses to see their business rates bills in one place online. Billing authorities will remain responsible for the administration of business rates. Planned delivery is not anticipated until 2026/7 at the earliest.
- 1.2 Our main concern with the proposals is that they will increase administrative and cost burdens on businesses by requiring them to provide more information to government but with minimal benefits for the businesses themselves. Many small businesses will be fully relieved from business rates and therefore derive no benefit from online bills. Large businesses and businesses using a rating agent will be fully aware of their rates bills already.
- 1.3 One of the objectives is to enable the government to better target financial support to businesses particularly in response to an economic shock such as the recent Covid pandemic. It is unclear how the data matching will enable this objective to be achieved, at least in the short or medium term. Liability for business rates arises on a daily basis (based on occupation). Data on turnover and profits is provided to HMRC annually via the corporation tax return submitted twelve months after the end of an accounting period. The data held by HMRC does not therefore necessarily reflect the current position. While HMRC is pressing ahead with MTD for income tax, the timetable for MTD for corporation tax is more delayed. It is therefore unclear when HMRC will obtain company financial results on a sufficiently timely basis to make fulfilment of this aim feasible.
- 1.4 While historically business rates were regarded as a property cost, they are now increasingly perceived as a tax, albeit one charged by reference to rental value rather than profit. There is therefore a good case, and one we support, for making the business rates system more integrated with and aligned to the wider UK tax regime. However, the proposals as they stand simply overlay data matching on to the existing non-aligned systems but without structural or legislative reform or centralisation to underpin the alignment. We recognise that the limited data matching proposals may be a stepping stone to wider reform and alignment but we think there is significant uncertainty over how much value DBR will add without wider structural 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.

3 Introduction

- 3.1 HMRC are consulting, at an early design stage¹, on how to join up business rates data (held by the 309 billing authorities in England) with centrally held HMRC tax data to achieve the following objectives:
- To better target business rates policy, including reliefs;
 - More effective compliance;
 - The ability for businesses to better understand and review business rates billing information across multiple billing authorities areas in one place, alongside tax information.

Billing authorities will remain responsible for the administration of business rates (billing, collection and enforcement) and making decisions on the award of reliefs to businesses.

- 3.2 To achieve these aims ratepayers will be required to provide information sufficient to allow confident matching of property data to tax data. The consultation seeks views on 3 options for providing that information:
- **Option A** (the lead option): To utilise the online system under development by the VOA for the government’s planned new duty on businesses to supply occupation, lease and property usage details to the VOA to support more frequent valuations for business rates.
 - **Option B** Ratepayers provide tax reference information to their billing authority who pass it to HMRC
 - **Option C** Ratepayers log on and provide information via an (existing or new) HMRC online service.

Planned delivery is not anticipated until 2026/7 at the earliest.

¹ It is not clear at what stage of the [government’s tax policy making process](#) this consultation is taking place although in consultation discussions it was emphasised that the consultation proposal are at a very early stage.

- 3.3 Business rates are devolved across the UK and the digitalising of business rates (DBR) commitment applies only to England. However, the government is in the early stages of exploring the possibility of extending DBR to Wales (see question 1).
- 3.4 One of our stated objectives for the tax system is a responsive and competent tax administration, with a minimum of bureaucracy. Our concern with the proposals in this consultation is that they will increase administrative and cost burdens on businesses by requiring them to provide more information to government with minimal benefits for the businesses themselves.
- 3.5 The CIOT's Business Rates Working Group and volunteers from CIOT committees attended an HMRC consultation roundtable on 5 September 2022.
- 3.6 We have not answered all the questions in the consultation as some are outside our remit, expertise or experience. Questions 17,19 and 26-28 are accordingly not addressed.

4 Achieving the government's objectives

- 4.1 While historically business rates were regarded as a property cost, they are now increasingly perceived as a tax, albeit one charged by reference to rental value rather than profit. There is therefore a good case, and one we support, for making the business rates system more integrated with and aligned to the wider UK tax regime. However, the proposals as they stand simply overlay DBR on to the existing non-aligned systems but without structural or legislative reform or centralisation to underpin the alignment. For example, liability to business rates is based on rateable occupation. There is no statutory definition of 'occupier' and 'occupation'. Therefore, case law² dating back to the 19th century must still be used to determine rateable occupation and the question of who is the occupier. The case law tests are largely subjective meaning there is an element of choice in determining occupation.
- 4.2 Similarly, the statutory framework for business rates in the Local Government Finance Act 1988 is outdated and does not reflect the way other taxes are structured. For example, there is currently no statutory obligation on ratepayers to notify liability for business rates to either billing authorities or the VOA in contrast to the statutory notification requirements for direct and indirect taxes.³ Any benefits of DBR will therefore be limited to businesses that are in the system but will fail to capture data about those who are not. Anecdotally we understand that the VOA is under resourcing pressures and therefore maintaining the existing database is challenging in itself. Does HMRC have a sense of the extent of business rates non-compliance? We note that business rates are not included in the tax gap; there is very little formal published data.
- 4.3 Although billing authorities may benefit from linkage with HMRC tax data in identifying businesses who are registered for tax but not for business rates, it is not clear how the sharing of tax data by HMRC with billing authorities is permitted by the information disclosure provisions of the Commissioners for Revenue and Customs Act 2005. We suggest the Commissioners for Revenue and Customs Act 2005 should be reviewed for DBR.

² Case law has established that there are 4 main 'ingredients' of rateable occupation – see *John Laing and Sons Ltd. v Kingswood Area Assessment Committee* 1949

³ The [Consultation: more frequent revaluations Fundamental Review of Business Rates](#) proposes two new duties as part of the move to three yearly valuations:

- A duty to notify the VOA of changes to the occupier and property characteristics that affect liability for business rates.
- Mandatory provision of rent and lease information, as well as trade and cost information used for valuation

- 4.4 We recognise that the limited data matching proposals may be a stepping stone to wider reform and alignment but we think there is significant uncertainty over how much value DBR will add without wider structural reform. We note the positive experience in Northern Ireland of moving to a centralised collection agency for business rates.
- 4.5 One of the objectives is to enable the government to better target financial support to businesses particularly in response to an economic shock such as the recent Covid pandemic. It is unclear from the consultation document how the proposed changes will enable this objective to be achieved. Reference is made to matching property data to business turnover and profit. Liability for business rates arises on a daily basis (based on occupation) whereas data on turnover and profits is provided to HMRC annually at present via the corporation tax return and statutory accounts submitted twelve months after the end of an accounting period. The data that HMRC holds is therefore 'old' not 'current', so may not readily be used for the targeted relief envisaged. Some businesses were busy in the pandemic (eg pharmaceutical) but others less so (hospitality), unless they innovated at short notice (eg a restaurant turning itself into a takeaway). Such innovations would not be apparent to HMRC or the billing authorities from the profits or turnover data held. Whilst HMRC is pressing ahead with MTD for income tax, the timetable for MTD for corporation tax is more delayed. It is therefore unclear when HMRC will obtain company financial results on a sufficiently timely basis to make fulfilment of this aim feasible. The differences in the tax basis for business rates and income tax/corporation tax would also appear to make this unworkable, unless business rates were to be replaced by a turnover/profit-related tax.
- 4.6 Moreover, DBR cannot operate in relation to exempt hereditaments including agricultural land and buildings as there will be no business rates data to match to tax data so data matching will not be comprehensive.

5 Question 1: How would Welsh local authorities, ratepayers, agents, and broader stakeholders feel about the possibility of DBR being extended to Wales?

- 5.1 We note the issue of the recent consultation⁴ in Wales. The proposals include a new duty to provide information to the VOA to support more frequent valuations replicating similar proposals in England. This development raises the possibility of using the VOA's online system (Option A) for ratepayers in Wales to provide the information required for data matching. However, our comments generally and particularly those above at paragraph 4 apply equally to Wales.

6 Question 2: Do ratepayers know/can they find their SA/Partnership/CT UTR and VRN? If not, what would make this easier?

Question 3: Where ratepayers do not have one of these relevant reference numbers, would identifying themselves as a taxpayer by providing a NINO or CRN cause any issues? If so, what are they?

Question 4: If ratepayers alternatively needed to locate and provide property reference numbers, would it be easier for them to provide a) a BA reference number plus BA name or 4-digit BA code, or b) a UPRN?

- 6.1 Generally, we think ratepayers registered for tax will have access to their tax reference numbers whether the ratepayer is a large group where the information is held by a central tax department or a small company

⁴ <https://gov.wales/reforming-non-domestic-rates-wales>

where tax data is maintained by one person. However, in large groups with significant property portfolios (such as supermarkets) the responsibility for business rates is likely to be with a different team than that for dealing with tax matters. In addition, there may be sensitivities around the sharing of tax details (login, access to tax records) with certain parts of the business. We are concerned that additional processes may be administratively burdensome on businesses. The ability to upload bulk data will assist.

- 6.2 Many large organisations outsource the business rates function. This process is slightly different to the traditional agent role of notifying changes to billing authorities, checking bills, authorising the demand and passing to the client purchase ledger for payment. With outsourcing, the client does not see the rate demands at all and the provider makes the payment to the billing authorities. The outsourcer asks the client to put a client account in funds operated under power of attorney.
- 6.3 We note there is also potential for duplication as the systems used by most billing authorities duplicate references across billing authorities. We understand that billing authorities and the Department for Levelling Up, Housing and Communities have identifying codes but ratepayers will not have this data and so are likely to provide a rate account number that may also be used by a different ratepayer within a different billing authority area. HMRC will need to be confident that it can accurately match data from different sources and an effective process to deal with inconsistencies and duplication.
- 6.4 It is not clear whether the intention is to match business rates data for ratepayers in the public sector. Not all public sector ratepayers will have a tax reference number although some will have a VAT Registration Number (VRN). We note the government consulted recently⁵ on a *Change to the business rates payment process for schools* including implementing a new central payment process for state-funded schools. There may be an interface with this work if the intention is to include schools within DBR.
- 6.5 In relation to providing property reference numbers (question 4), the system would need to use good quality identifiers for the properties. Billing authority reference codes, whilst more likely to be known by the business, may be subject to duplication. Larger businesses are likely to know their Unique Property Reference Number (UPRN) if they use geospatial software to help with their business analysis work. We note the considerable work undertaken by Ordnance Survey and GeoPlace to set up the UPRN system. Given there is a 'Find My Address' tool freely provided by GeoPlace (as noted in the consultation at 3.18), it would appear administratively reasonably straightforward for a business to look up the address(s) on the tool and provide the UPRN. This would then make the data in the new system easier to cross reference with other location/property data held across government for example at the Land Registry and the VOA. The alternative is to allow the business to provide the number they have to hand with HMRC/the billing authorities linking the address to the UPRN so the UPRN is put into the system correctly.
- 6.6 In considering a single identifier is there a crossover with HMRC's work under the Unique Customer Record Programme?
- 6.7 To the extent that the design of the system involves rating agents there may be some reluctance to share tax reference numbers with a rating agent if by doing so the rating agent has access to the company's wider tax affairs. We know from the development of MTD for ITSA that recognising different agents for different taxes or obligations is a challenge. HMRC would need to be confident that this feature can be accommodated in DBR.

⁵ <https://www.gov.uk/government/publications/national-non-domestic-rates-guidance-for-billing-authorities/change-to-the-business-rates-payment-process-for-schools-guidance-for-billing-authorities>

7 Question 5: Are there scenarios where ratepayers might not have any relevant reference number? Including any scenarios where a ratepayer may not be registered for tax purposes? If so, what are they?

- 7.1 The consultation lists some categories of ratepayers that will not have any form of tax reference (new businesses, some non-UK residents, those occupying properties liable for business rates but not otherwise carrying on a business). Estates of deceased persons valued at less than £2.5m with income/gains below £10,000 adopting informal reporting arrangements is a further category.
- 7.2 In addition, HMRC research has pointed to persons in the gig or hidden economy who do not realise they are self-employed. The challenge will be on how to engage with businesses who are starting up and may not have registered for self-assessment, whatever the reason may be.

8 Question 6: Are there scenarios where a person or entity's identity in the tax system (with one tax reference number) may not precisely align with their legal responsibility as a ratepayer? for example, where multiple ratepayers share the same tax reference number, or multiple entities for tax purposes share one responsible legal identity in a business rates context?

Question 7: When might a taxpayer reference that is associated with a property portfolio under DBR change (for example, registration for self-assessment, incorporation or disincorporation, VAT-registration or de-registration, mergers and acquisitions)? Are there scenarios where the new reference number might not precisely assume the property portfolio associated with the previous number?

- 8.1 If one company in a group deals with all the group's business rates (before doing inter-company recharges of costs) then the issues mentioned in question 6 could arise. Similarly, several related businesses may be run from one address or a shared office space.
- 8.2 In relation to question 7, merger and acquisitions will often give rise to changes in the property portfolio associated with a tax reference and because of the disconnect between the rating system and HMRC administered taxes there may not be great efforts made to get the rates bill in the right name. Billing authorities are unlikely to have sufficient knowledge of a ratepayer's corporate structure or details of all legal entities so rates bills are often in the wrong name. As rates are a tax on occupation of property (or ownership if empty) the focus is to check that the period is correct and the calculation of liability correct and then to pay bill. Billing authorities will not know or be concerned with which entity accounts for the liability. A linkage to a tax reference is therefore likely to require a large cleansing exercise, placing an administrative burden on both the taxpayer and the billing authorities. In London where much property is owned by offshore entities, the bills are often in the name of the UK managing agent.
- 8.3 There will need to be rules or a structure on which tax reference number a business provides, and how many references when a business has more than one.

9 Question 8: In which type of customer journey would it be easiest to provide your reference number(s) (option A, B or C) and why? Would any of the options be particularly difficult?

Question 9: What are the main challenges presented with each 'data in' option and how could they be addressed?

Question 10: Under option B – what process would be best for ratepayers (or their agent) to provide their tax references to a BA and why? Or would a standalone process be preferable?

Question 11: Under option C – what process would be best for ratepayers (or their agent) to provide their property references to HMRC and why? Or would a standalone process be preferable?

Question 12: To what extent would ratepayers expect to log in themselves to provide tax or business rates information with a single set of verified credentials (rather than setting up multiple credentials or using an agent)?

9.1 The design principles set out in the consultation are very welcome, that is, to:

- minimise the burden on ratepayers as much as possible, by seeking opportunities to use processes that ratepayers will already be using, rather than introducing new ones
- work closely with billing authorities and the VOA to ensure the overall customer journey is seamless and feels coherent
- avoid asking for the same data through multiple routes
- look at opportunities for how the new matched data could also reduce burdens on ratepayers in other areas

9.2 The consultation indicates that in relation to HMRC's lead option, Option A, HMRC will explore if it is feasible to obtain a relevant tax reference behind the scenes so removing the need for some ratepayers having to do anymore. While that may benefit some ratepayers it means that the obligation to provide information will not work in the same way for all businesses although this might be overcome by pre-population with an option to confirm. In all cases there should be an obligation on HMRC to show the taxpayer the tax reference they have matched the taxpayer with for them to confirm it is correct. It is essential that HMRC are transparent about how references are matched and for there to be a clear and easy process to resolve errors and inconsistencies.

Option B has the advantage of building on the current process and relationship between ratepayers and billing authorities but will involve some duplication for even small businesses that operate across more than one billing authority area. Ideally the tax reference information would be provided at a point when ratepayers access the system for other reasons such as accessing bills. The need for billing authorities to keep this information secure, particularly personal information, is an important element to be addressed.

Utilising an existing HMRC system under Option C would appear to potentially require adapting existing processes eg changing tax returns to provide a UPRN. A standalone process might be preferable but (unless it is postal) there would need a major campaign to raise awareness to ensure businesses go online to provide the information, particularly if businesses do not perceive much benefit in doing so (see further our comments at Question 12).

9.3 Utilising either Option B or C would mean that businesses will be faced with two new administrative burdens at about the same time, this process and the new VOA duty to provide lease and property information. Therefore, we can understand why HMRC are favouring Option A.

10 Question 13: Other than those outlined in this document, are there any options for how DBR might collect data to enable matching of taxpayer and ratepayer information, that would work better to achieve the policy aims?

10.1 Overall we recognise that HMRC cannot achieve DBR without the help of businesses. HMRC does not have all addresses from which businesses operate (whether offices, warehouses, shops etc.) not least because some use their agents' address as their registered office and multiple businesses can be sited at the same place. Billing authorities do not hold tax data. However, there are existing and new registers collecting property ownership data. HM Land Registry registers changes in legal ownership of property (although not all properties are registered). Other registers recording property details are:

- the new Register of Beneficial Owners of Overseas Entities owning UK property,
- the register being created by the Levelling up and Regeneration Bill – Part 9 (a register of some beneficial owners of UK land)
- the Trust Register (created in 2017 as an anti-money laundering measure) placing a requirement on all UK trusts or nominee arrangements whether or not they have a UK tax liability to register and provide information on their trustees, beneficiaries and assets to HMRC.

While recognising that these registers will not necessarily provide or match details of occupation at any particular time, we suggest there may be scope for exploring the extent to which information provided to the government through existing processes can be utilised for DBR to minimise the administrative burden for business.

10.2 The experience of the Trust Register and the CGT property reporting service emphasises the importance of ensuring that processes are not unduly onerous for those subject to them and the importance of a well-designed IT system to collect and connect the data flows.

11 Question 14: What processes might ratepayers (or their agents) have to put in place to meet their obligations under each option and what costs might this bring?

11.1 We expect that the simple provision of a tax reference or property number would be undertaken by the business itself, instead of using a rating agent or tax agent. Having said that if agent access is to be provided, it should be built into the system from the beginning. In our experience adding agent functionality to a existing system leads to significant problems.

12 Question 16: Would you use a service that allows you to view business rates information for all your properties across England in one place, alongside other HMRC tax liabilities? Yes/No

If yes, how often and for what purposes?

If yes, how useful would you find such a service – on a scale of 1 to 10, where 10 is extremely useful?

If no, would being able to pay your bill(s) through the service change your response?

12.1 This question is largely directed at businesses. However, we observe that given billing authorities will remain responsible for administering and collecting business rates, with centralised payment impossible, it is unclear what benefit would be derived by businesses from the proposed changes. The possibility of viewing billing

information on rates alongside that for other taxes is unlikely to be of material benefit, unless all bills (tax and rates) can be paid via the same internet page or portal. We note the suggestion that businesses will be able to see their business rates in their digital tax accounts. Whilst we know HMRC are progressing elements of individual tax accounts, progress appears to be slow. It is unclear if work has yet started on tax accounts for companies.

- 12.2 Many small businesses will be fully relieved from business rates and therefore derive no benefit from online bills. On the other hand, it is these businesses, in receipt of reliefs, that need to be encouraged to provide the tax or property reference data to meet the objective of better targeting of reliefs. In that sense the 'carrot' is less attractive.
- 12.3 Large businesses and businesses using a rating agent will be fully aware of their rates bills already. As we have noted the team dealing with business rates may not be the same team that deals with corporate tax matters. If this is the case, putting rates data on the tax account seems to have little or no benefit. Moreover where businesses have large numbers of sites nationwide (eg supermarkets) it might even make the tax account very cluttered visually to have the rates for more than 300 local authorities listed.
- 12.4 In addition, rate bills (reflecting the nature of rates as a daily tax⁶) are potentially subject to in-year changes and complex prior year adjustments. Rate bills do not therefore accord meaningfully with annual corporation tax and income tax liabilities. There is potential for confusion and increased levels of queries to billing authorities if the bills shown online do not reflect what the business expects or have not been updated to reflect current liabilities. We are not convinced that the current billing systems would always reflect the latest position.

13 Question 18: Could DBR data help with targeting and administrating of reliefs? If so, for which reliefs would it be of most help and why?

- 13.1 We recognise that targeting of reliefs is currently imprecise and data matching may assist in the design of more targeted reliefs and perhaps facilitate cross-checking between billing authorities to ensure conditions for the relief are met and cash limits or subsidy levels are not exceeded. We note that some billing authorities already exchange data quite effectively, for example in relation to checking eligibility for Small Business Rates Relief. We understand it is not uncommon for SBRR to be withdrawn following a data matching exercise between billing authorities because a ratepayer is using an additional property in another billing authority area. On the other hand, the way billing authorities approach the granting of relief is widely recognised as inconsistent. Some Greater consistency and transparency around the criteria for business rates reliefs and their application across billing authorities and the processes for claiming them would help to ensure reliefs are targeted more effectively. The proposals as they stand simply overlay DBR on to a system that does not apply the reliefs consistently between billing authorities.

⁶ Local Government Finance Act 1988 section 43

14 Question 20: If option A for 'data in' is pursued, do respondents think DBR should be included within the sanctions regime for the new VOA duty or have a separate sanctions regime?

Question 21: If separate, or if options B and C are pursued, do ratepayers have views about adopting a similar penalty regime to the one proposed for the VOA's new duty?

Question 22: What concerns do you have about a DBR sanctions regime?

Question 24: Are there alternatives to penalties not explored in this document that the government should consider?

- 14.1 As a general observation, if there is likely to be little perceived direct benefit for business and to some extent the process will help governmental bodies link up data already held by central or local government in legacy systems, the imposition of substantial sanctions does not seem wholly appropriate. Perhaps instead a small discount could be given on the rates bill when the data is provided using a 'carrot' rather than a 'stick' approach.
- 14.2 If Option A is pursued we think DBR should be included within the sanctions regime for the new VOA duty. A centralised HMRC penalty regime for Options B and C appears most appropriate.

15 Question 23: Do you envisage risks with applying the principle of conditionality to new or redesigned reliefs? If so, how can these be mitigated?

- 15.1 We are not opposed in principle to the principle of conditionality in terms of new or redesigned reliefs - and note there is an element of conditionality already in the Check Challenge Appeal process that works well despite initial concerns from stakeholders - but we would want to see it being introduced in a measured way with safeguards to ensure that financial livelihoods are not put at risk.
- 15.2 We also observe that conditionality already exists in the tax system for certain businesses eg scrap metal businesses and taxi drivers so the licencing (local) authorities will already hold tax references from that system and will know where the business operates. This information can therefore be utilised for DBR.

16 Question 25: What are ratepayers' and agents' views on whether ratepayers will want their agents to discharge their duty to provide the mandatory reference numbers needed for DBR?

- 16.1 Please see our answer to Question 14 above.

17 Acknowledgement of submission

- 17.1 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

30 September 2022