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Business Rates revaluation 2023: Consultation on the transitional arrangements

Department for Levelling Up, Housing and Communities

Response by the Chartered Institute of Taxation

1 Executive Summary

1.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 19,000 members, and extensive volunteer network, in providing our response.

1.2 Business rates revaluations will move from the current 5-yearly cycle to a 3-yearly cycle, starting from the next revaluation taking effect on 1 April 2023. Historically revaluations have led to substantial changes in rates bills for taxpayers. Since 1990 governments have applied a transitional scheme to phase-in increases in rates bills based on annual caps on the percentage by which a ratepayer's bill can increase for that year. The cost of the relief for those ratepayers facing increases is funded from other ratepayers by way of a transitional surcharge. This consultation seeks views on the form of transitional arrangements for the 1 April 2023 revaluation.

1.3 In principle, more frequent revaluations that achieve the aim of allowing the full impacts of the revaluation to feed through to rate bills quickly should obviate need for any form of transitional scheme. Transition is at odds with the objective of more frequent valuations as businesses do not benefit from reduced bills immediately. Similarly, businesses with higher rateable values are temporarily shielded from higher bills.

1.4 Historical transitional schemes have been a somewhat blunt instrument when judged against the principles of good tax design. It is not predictable in its first year of operation and businesses have little time to prepare for the impact given that the transition regulations are not generally issued until a few months before new year rates bills. Nor is it aligned with other relatively more targeted permanent business rates reliefs. The self-funding undermines the principle of tax neutrality by introducing an economic subsidy for one set of ratepayers funded by ratepayers whose bills are artificially high.

1.5 Despite the inherent drawbacks of transition and, depending on the outcome of the 2023 revaluation, there may be a case for retaining some limited form of transition for the 2023 revaluation only, given the exceptional circumstances of the Covid-19 pandemic.

1.6 While we are supportive in principle of more frequent revaluations and a less generous and distortive transitional scheme, we suggest the government should evaluate the implications of these changes for the effective economic burden of business rates and for economic coherence when compared to other models.

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 The Business Rates Review: Final Report[1] confirmed that business rates revaluations will move from the current 5-yearly cycle to a 3-yearly cycle, starting from the next revaluation taking effect on 1 April 2023. This means that in April 2023, rateable values that determine liability to business rates will be adjusted to those at the 1 April 2021 revaluation date (the 'Antecedent Valuation Date'). The rateable value of a property usually reflects the annual rent that it could have been let for on the open market.[2] The objective in moving to a 3-yearly cycle is 'to make the system fairer and more responsive for all ratepayers, meaning bills should more closely reflect current rental values.'[3]

3.2 Historically revaluations have led to substantial changes in rates bills for taxpayers, increasing bills for some businesses whose rateable value has increased more than the average and leading to reductions for other businesses where their rateable value increases less than the average. Since 1990 governments have applied a transitional scheme to phase-in increases in rates bills based on annual caps on the percentage by which a ratepayer's bill can increase for that year. The cost of providing transitional relief to those businesses with higher bills is met by phasing-in reductions in bills for other ratepayers whose rateable values have reduced.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1028478/BRR_final.pdf
[2] There are alternative methods of calculating rateable value where it is difficult to determine accurate annual rental values.
[3] Paragraph 2 of this consultation.

Under section 57A of the Local Government Finance Act 1988 there is currently a statutory duty to establish a transition scheme that is self-financing.[4] The requirement for a transitional scheme is unique to business rates in England.

3.3 This consultation seeks views on the form of transitional arrangements for the 1 April 2023 revaluation. We have considered consultations questions 1-4. Questions 5 and 6 are omitted. These are concerned with funding. We do not usually comment on rates of tax or how reliefs are funded by government.

3.4 Our stated objectives for the tax system include:

- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- 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.

4 Question 1: how do you believe the government should strike the balance in the 2023 transitional arrangements between supporting ratepayers facing increases to their bills and allowing the effect of the revaluation to flow through into bills?

4.1 In principle, more frequent revaluations that achieve the aim of allowing the full impacts of the revaluation to feed through to rate bills quickly should obviate need for any form of transitional scheme. Transition is at odds with the objective of more frequent valuations as businesses do not benefit from reduced bills immediately. Similarly, businesses with higher rateable values are temporarily shielded from higher bills.

Regular revaluations should mean that those sectors of the economy that have been buoyant and felt able to pay higher rents for the properties from which they trade, would expect to contribute more to the business rates tax take. In that way the rent:rates equation is maintained in a timelier manner so that the valuation basis of the rating system is more relevant and responsive to shifts in the various sectors of the economy. In that sense previous transitional schemes have undermined the integrity of the rating system by breaking or at least severely delaying the link between rent and rates.

4.2 As a deferral mechanism, transition is not only incompatible with the fundamental aim of more frequent valuations, it is something of a blunt instrument when judged against principles of good tax design. It is not predictable in its first year of operation and businesses have little time to prepare for the impact given that the transition regulations are not generally issued until a few months before new year rates bills. Nor is it aligned with other relatively more targeted permanent business rates reliefs. The revenue neutrality requirement (meaning that the cost of the relief for those ratepayers facing increases must be funded from other ratepayers by way of a transitional surcharge) undermines the principle of tax neutrality by introducing an economic subsidy for one set of ratepayers funded by ratepayers. This invariably means that bills for those ratepayers that should benefit from a reduction remain artificially high.

4.3 In terms of the wider effect of revaluation and its effect on ratepayers, we note there is considerable economic evidence that the effective burden of business rates is borne by landowners rather than occupiers. Possibly these businesses experience rates as a significant cost, and find it hard to envisage that, if it were absent, market conditions would be so different as to induce them to enter leases paying significantly higher

[4] See section 57A: https://www.legislation.gov.uk/ukpga/1988/41/section/57A

rents (as economic theory, with supporting evidence, indeed suggests they would). However, while we are supportive in principle of more frequent revaluations and less generous and distortive transitional relief, the government should consider the implications for the effective burden of the tax. Would they make the likely business rates burden over the life of a lease, more or less predictable at the time that the occupier took on the lease? Clearly there would be more likelihood of a change in the rateable value, and its effective follow through into the actual rates burden, as a result of these changes, but perhaps the overall pace and direction of change would be easier to anticipate?

The government should ideally have a clear view of this issue, both because the impact of tax changes is important to assess in itself, and because of the ongoing debate about where the burden lies and the fairness of that. We do not ourselves have the expertise to assess this question.

4.4 A related point is that these changes bear on the ways in which business rates differ from land value taxation (which enjoys strong support among economists), and therefore bear in a sense on the economic coherence of the tax. Differences exist and will remain, in that business rates are connected to the value of buildings (including improvements) as well as land: on the other hand agricultural land is exempt. But more frequent revaluations, and reduction of transitional relief, take business rates closer to the automatic uplift inherent in land value taxation. The other key difference - that occupiers rather than landowners are normally liable for business rates, is perhaps more apparent than real, but highlights the importance of any issues as to how much changes to business rates bear on the real economic incidence of the tax.

5 Question 2: what format of transitional relief do you think should be provided for the 2023 revaluation?

5.1 As stated in the response to question 1, we have concerns that transition creates distortions and undermines the wider rating system particularly in the context of more frequent valuations. The new 3 yearly valuation cycle is therefore an opportunity to consider removing the transition altogether with effect from the 2023 list. However, despite the inherent drawbacks of transition and, depending on the outcome of the 2023 revaluation, there may be a case for retaining some limited form of transition for the 2023 revaluation only, given the exceptional circumstances of the Covid-19 pandemic.

Firstly, the Antecedent Valuation Date (AVD) of 1 April 2021 is just under 3 months after England entered its third national lockdown on 6 January 2021 . This revaluation will therefore have a 'Covid' AVD.

Secondly, the 5 yearly revaluation scheduled for 1 April 2022 was postponed to 2023 due to the exceptional circumstances of the pandemic. Therefore, there will be a move from a previous pattern of 5 yearly revaluations (compounded by being extended to 6 years and 7 years respectively for the last two lists), to a new pattern of 3 yearly revaluations.

5.2 These two factors mean that the 2023 revaluation may provide a case for a form of limited transition of 12 months for the 2023 revaluation only that ensures ratepayers reach their Notional Charge (NCA) bill more quickly and within the list, say by the start of the third or second year of the rating list.

5.3 We would not usually comment on rates of tax or the means by which transition is funded. However, consideration might be given to funding the relief side (increasing percentages) in ways other than by imposing delayed reductions onto the surcharge side (reducing percentages) to minimise the inherent distortionary effects.

6 Question 3: do you think that we should continue to provide assurances through transitional relief that bills will not rise by more than a set percentage due to the revaluation?

6.1 We consider that ongoing assurances would merely serve to perpetuate transition and undermine the principle and purpose of more frequent revaluations. However, there may be a case for retaining the ability to implement a limited transitional scheme in exceptional circumstances.

7 Question 4: do you think we should provide different caps for different sizes of properties?

7.1 Different caps for different sizes of properties adds complexity to the scheme that may not be justified for a limited redesigned and exceptional transition scheme that runs for only 1 or 2 years. However, it is recognised that the 3 different bands of properties are well understood by ratepayers.

8 Acknowledgement of submission

8.1 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

25 July 2022