

Business Rates Review: Interim Report

March 2021

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Foreword

In July 2020, the Government published the Call for Evidence for the Fundamental Review of Business Rates, in two tranches. This Interim Report sets out an overview of the responses received to both tranches of the Call for Evidence. It also includes the policy decisions announced at Spending Review 2020 and Budget 2021, which are detailed in the next section.

A wide array of organisations and individuals, from a variety of sectors and regions, submitted contributions to the Call for Evidence. The Government is grateful to them all for setting out their views, which have been a great help to its continuing policy work in this area.

Previous reviews have reflected a consensus that business rates have distinct strengths as a tax. These factors, such as efficiency of collection, the high level of revenue raised, and the relative difficulty of evasion, make it an essential source of funding for local services.

The results of this Call for Evidence bear out that view, but respondents have also emphasised a range of important challenges. These include the burden of the tax, including its administration burdens; the targeting and effectiveness of the reliefs system, the frequency of revaluations, and calls to address competition from online sales. Respondents have also presented the Government with a range of proposals for reform and improvement within the existing system.

The UK continues to face a high degree of economic uncertainty in the face of the Covid pandemic. It is important for the Government to have the best possible information about the state of the economy and the public finances, in order to guide decisions about long-term reform. The final report of the Fundamental Review will therefore follow in Autumn 2021. This will set out the Government's priorities for reform, and its longer-term vision for the business rates system.

In the interim, stakeholders have called for clarity most urgently on the future of the Retail, Hospitality, and Leisure discount, worth over £10 billion to ratepayers, and the Government has provided this by announcing an extension to the relief at the Budget earlier this month. The Spending Review also confirmed that the business rates multiplier will be frozen in 2021-22, saving businesses in England £575 million over the next five years.

The events of the last 12 months have placed undeniable pressures on the public finances, and the Government faces a greatly changed economic and fiscal context from the one in which this Review was launched. However, it remains committed to improving the tax system for businesses, reforming the administration of business rates for the 21st century, and putting the tax on a more sustainable footing for the future.

Chapter 1

Introduction - policy decisions

- 1.1 Recognising the desire for clarity from ratepayers, Local Authorities, and other stakeholders in the business rates system, the Government has already announced decisions on a number of key areas.
- 1.2 At the Spending Review in November 2020, we announced a freeze in the business rates multiplier in 2021-22, saving businesses in England £575 million over the next five years.
- 1.3 The Spending Review also announced £53 million funding for the Valuation Office Agency (VOA) to support business systems modernisation and work on the 2023 revaluation.
- 1.4 Last year, we provided an unprecedented 100% business rates holiday, in England, for all eligible businesses in the retail, hospitality and leisure sectors – a tax cut worth £10bn.
- 1.5 At the Budget on 3 March 2021, the Chancellor announced that the 100% business rates holiday will continue for the first three months of the year, through to June. For the remaining nine months of the year, the discount will be two-thirds, up to a value of £2m for closed businesses, with a lower cap for those who have been able to stay open. This latest extension will provide a £6bn tax cut for business.

Chapter 2

Call for Evidence, Summary of Responses - Tranche 1

- 2.1 A Summary of Responses to the Call for Evidence follows. This is not intended to be a comprehensive account of all points of view expressed in the submissions received, and instead provides a summary of commonly expressed perspectives.
- 2.2 Tranche 1 sought views on the most immediately pressing elements of the business rates system, and covered business rates reliefs and the business rates multiplier.
- 2.3 237 responses were submitted to the Business Rates Review ahead of the deadline for Tranche 1 responses on 18 September 2020. 250 responses were received through the Smart Survey portal on Gov.uk.

Questions 1 to 5 – Business Rates reliefs

Q1 - How well do current reliefs and exemptions deliver their intended outcomes and satisfy the principles of good tax design? What changes would you suggest to the system?

- 2.4 Respondents commonly felt that the reliefs and exemptions system is overly complex and challenging for firms to navigate. Several cited the findings of the Treasury Select Committee¹ on this issue, and expressed the view that there are a relatively high number of reliefs, that these increase the complexity and instability of the rates system, and that this is contrary to the principles of good tax design. Respondents also felt that an extensive reliefs regime places a significant burden on Local Authorities to administer, and reported that some struggle to administer all available reliefs. It was also argued that the high number of reliefs narrows the tax base, to which some respondents attributed the higher burden on other ratepayers.
- 2.5 Several respondents accordingly called for a general review of reliefs and exemptions focused on value for money and rationalisation of the system, including ensuring that reliefs address genuine market failures. Some proposed holding regular reviews.
- 2.6 A large number of respondents expressed the view that the extensive reliefs regime is made necessary by the high overall burden of business rates, and

¹ <https://publications.parliament.uk/pa/cm201919/cmselect/cmtreasy/222/22202.htm> Treasury Select Committee, 'Impact of business rates on business', 2019

argued that a general reduction in the burden, such as through cuts to the multiplier, could reduce the need for reliefs.

- 2.7 Some respondents felt that the system currently favours small businesses, regardless of whether these are more or less in need of support than larger ratepayers. These respondents often felt that rates liabilities should more directly reflect profitability or ability to pay, in line with other taxes such as Corporation Tax, or focused on instances of 'hardship'. However, it was also noted that small businesses occupying larger properties may be unable to access Small Business Rates Relief (SBRR), and that reliefs for small business should ideally target 'small businesses' rather than 'small properties'.
- 2.8 In addition, a number of respondents felt that 100% relief for rate-payers eligible for Small Business Rate Relief undermines the principle that all tenants should contribute some amount towards the upkeep of local services.
- 2.9 Most respondents from the retail and hospitality sectors called for extension of the Retail, Hospitality, and Leisure discount, and expressed concerns about a 'cliff edge' reintroduction of 100% rates payable in April 2021. Several respondents called for an extension of the current 100% discount, particularly those in the hospitality sector. A smaller number called for a lower level of relief in future, such as at a 50% rate. Business representative organisations and some larger retail firms, particularly supermarkets, did not call for extension of the relief. Several respondents were supportive of a more targeted approach to the continuation of the relief in 21/22, and considered the fiscal cost of the original relief to be high.

Q2 - How can reliefs be targeted more effectively? How can reliefs and their administration be simplified?

- 2.10 A large number of respondents focused on the impact of the current system on investment, particularly in relation to relief thresholds. Small Business Rates Relief (SBRR) thresholds were identified as a potential deterrent to expansion for small businesses. Calls for reform included raising the overall threshold, tapering above the threshold to avoid a 'cliff edge' above £15,000, removing tapering between the £12,000 and £15,000 thresholds to provide additional support to those businesses currently on the taper, and removing the limit on multiple properties.
- 2.11 Further proposals for reform of SBRR included a fixed fee for ratepayers below the SBRR threshold; an allowance for ratepayers modelled on the income tax Personal Allowance; the replacement of reliefs with grants payable to small ratepayers; and reforming the relief to focus on small businesses rather than small properties.
- 2.12 Calls for an improvement relief were common, with several respondents citing the Growth Accelerator relief in Scotland (some noting that up to 2 years of relief would be desirable). Support for 'green' investment designed to support energy efficiency, renewable energy generation, and community energy generation was identified as a particular priority. (See below for further detail on Plant and Machinery.)
- 2.13 A limited number of respondents identified State Aid as a concern with respect to business rates reliefs, noting that this currently limits relief entitlements for

larger ratepayers. Some respondents argued that business rates relief should be exempt from State Aid or any successor regime, because business rates do not directly apply to a good or service tradeable across borders.

- 2.14 Several respondents felt that empty property rates unfairly penalise landlords, given the difficulty commonly experienced in finding new tenants or conducting refurbishments within the time limit of Empty Property Relief, particularly in light of the current economic situation. Several called for extension of the relief period to 6 months, to bring other sectors in line with the current rules for industrial premises. A small number called for an even longer relief. Other respondents called for empty property rates to revert to the pre-2008 rate at 50% of occupied levels, from 100% in most cases currently, arguing that the current regime has been ineffective in reducing the overall number of long-term vacant properties. Several also called for relief for part-empty property to be put on a mandatory footing with clear central guidance.
- 2.15 Some respondents called for automatic application of all reliefs, as opposed to requiring ratepayers to proactively apply for these, noting that complexity in the system can lead to ratepayers failing to understand their eligibility, or relying on external agents for support in navigating the system.

Q3 - What evidence is there on the capitalisation of business rates and business rates reliefs into rents over time? What does any evidence mean for the design of rates reliefs and business rates more broadly?

- 2.16 Views on capitalisation were mixed. A majority of respondents argued that capitalisation of rates reductions into rents largely does not occur, particularly in light of current market conditions. In particular, these respondents considered that an oversupply of commercial property relative to demand exists in today's market, meaning that, in many cases, landlords will not have sufficient leverage to negotiate for rent increases, mitigating the risk of capitalisation. It was also noted that the valuation process, which uses rental values to determine rates liabilities, should theoretically deter capitalisation, given that increases in rents should feed back into higher rates liabilities at subsequent revaluations.
- 2.17 However, a sizeable minority of respondents made the case that capitalisation does occur, and has a distortive effect on the market. Tenants often assess the total 'cost of occupation' as a single cost, meaning that rates and rents are likely to be traded off against one another in practice. Tenants in receipt of relief may therefore be able to increase their rental bid, distorting competition between tenants. Some previous market evidence suggests that capitalisation does follow the introduction of new reliefs.
- 2.18 Respondents frequently emphasised that any capitalisation effect would likely follow a significant time lag, given long lease lengths for many high street tenancies.
- 2.19 Some respondents focused on mitigating actions. For example, some felt that more frequent revaluation may deter capitalisation, by speeding up the feed-through into Rateable Values. Others noted that targeted, time-limited support through reliefs would reduce the risk of capitalisation. Others

recommended reform to share the tax burden between landlords and tenants, or an annual charge on landlords.

- 2.20 Several stakeholders also reported that they hold the entirety or majority of their estate in freehold, and accordingly would not be subject to capitalisation into rents.

Q4 - What role should Local Authorities have in determining business rates reliefs and exemptions? Should reliefs and exemptions be set by central Government or set locally?

- 2.21 Most respondents were opposed to greater discretion for Local Authorities to set reliefs and exemptions. Respondents commonly expressed a strong preference for mandatory and centrally-funded reliefs, and expressed the view that Local Authorities frequently opt against awarding discretionary reliefs due to the fiscal incentives created by rates retention. Several ratepayers reflected a sense of unfairness and inconsistency of treatment, in cases where discretionary reliefs were not applied, and called for clear central guidance on eligibility. Several called for new powers to allow ratepayers to challenge Local Authority decisions with respect to application of reliefs.

- 2.22 Respondents also emphasised that greater discretion for Local Authorities could generate additional complexity, particularly for ratepayers operating across multiple jurisdictions. Varying levels of capacity, capability, and data quality across Local Authorities were also raised as a concern.

- 2.23 However, a small number of non-Governmental respondents were supportive of greater localism, on the grounds that local expertise may allow Local Authorities to set a policy approach better tailored to local areas and the needs of local businesses, while noting that this would need to be accompanied with a high level of transparency on the part of Local Authorities. Proposals included a mandatory 80% for certain reliefs with a 20% local discretionary component; and setting exemptions centrally.

- 2.24 Providing relief targeted on high streets in 'left behind' regions was also proposed, to support the Government's levelling up agenda, or on town centre locations, to reflect falls in footfall as a result of Covid-19.

- 2.25 Local Authorities expressed mixed views on further discretionary powers. Many acknowledged challenges regarding additional complexity that would result from variation in approaches, and expressed concern about a system incentivising competition between neighbouring jurisdictions. However, many also felt that greater local powers would allow local issues to be better addressed, and would make it easier to work with local businesses. Most were supportive of greater use of discretionary reliefs, and felt that this would make the system more responsive to fiscal pressures at the local level.

Q5 - Are you aware of ratepayers misusing tax reliefs or other means to avoid paying their full business rates liability? What could be done to tackle this?

- 2.26 Respondents commonly expressed the view that the complexity of the reliefs system and the high overall burden create incentives for firms to attempt avoidance and evasion. These respondents accordingly argued that a lower

multiplier, and a more streamlined reliefs regime, would reduce instances of misuse.

- 2.27 Empty Property Relief was most the commonly cited relief in answer to this question. Respondents agreed with the examples of abuse given in the Call for Evidence, and also highlighted contrived reoccupation for charitable purposes. Respondents frequently argued that a more generous relief (see above) would reduce incentives for abuse. Some respondents also recommended extending the 'six-week rule' for reoccupation to tackle contrived reoccupation – these respondents felt that, although this activity may fall within the letter of the law, it is outside of the spirit of the law.
- 2.28 Some respondents highlighted abuse by firms claiming SBRR on multiple properties, including in the short-term letting sector. Others raised the issue of second homeowners registering their properties as holiday lets, despite rarely letting them out, to claim SBRR, and proposed strengthening the eligibility to pay business rates rather than council tax.

Sector-specific reliefs

In addition to the above comments, some respondents provided further detail on concerns specific to individual sectors. These are summarised as follows.

Support for digital infrastructure

- 2.29 Members of the fibre broadband sector widely called for extension of relief for full fibre, to support continued accelerated rollout to meet the Government's target. Views on duration of the relief varied, with most calling for either a 5 or 10-year extension. A smaller number of respondents called for a 20-year extension or for a permanent relief for gigabit-capable infrastructure.
- 2.30 Some respondents also felt that relief should be targeted on smaller providers, or those most in need of support.
- 2.31 Other proposals included providing relief on mobile masts in proximity to areas in receipt of Rural Rates Relief or those paying code/reduced rents; providing a full exemption for 5G cells; and geographical targeting of reliefs. Others noted that reducing the business rates multiplier would reduce the need for support through reliefs.

Charitable rate relief

- 2.32 The Charities sector called for continuation of charitable rate relief, including the 80% mandatory rate, on the grounds that this is simple, effective, and easy to apply. These respondents were opposed to introducing further differentiation between charities, and suggested increasing funding to Local Authorities for the 20% discretionary component.
- 2.33 Other respondents provided reflections on charitable rate relief. Several felt that this can have a distortive effect on high street rents, creating a disadvantage for other tenants, and may deter landlords from investing in redevelopment. Others disagreed, suggesting that charities typically occupy properties in low demand. Others were supportive of the continuation of the

relief, but expressed the view that all tenants should pay something, rather than allowing zero rates in certain cases.

Airports

- 2.34 The airports sector called for relief targeted on airports or on large infrastructure providers, in order to respond to economic shocks.

Questions 6 to 9 – Business Rates multiplier

Q6 - What are your views on how the business rates multiplier is set annually and at revaluations?

- 2.35 A large number of respondents were opposed to the current system of fiscal neutrality with respect to the business rates yield. These respondents felt that this revenue-neutrality requirement places a higher burden on firms, and that it prevents the tax burden from adjusting to reflect changing economic conditions. Respondents also felt that this reduces predictability for firms, and introduces additional complexity. It was frequently noted that business rates differ in this respect to other taxes, which use a fixed rate and a varying yield.
- 2.36 Many respondents also expressed opposition to annual uprating by inflation, although some respondents reflected that CPI provides a more appropriate inflationary measure than RPI. A small number expressed support for using an index based on property values to more accurately reflect changes in Rateable Values (RVs). In addition, some respondents acknowledged the merit of indexation between revaluations in maintaining the tax base, particularly given the additional certainty this provides for Local Authority funding.
- 2.37 Several respondents highlighted the high burden of property taxation relative to other European jurisdictions, and felt that this has a negative effect on competitiveness, investment, and attractiveness to inward investment, although some acknowledged that UK tax rates are lower than in Europe in other areas.
- 2.38 As with reliefs, some respondents felt that the multiplier should take greater account of profitability or ability to pay.

Q7 - How could the multiplier be set in future to ensure the sustainability of public finances and support growth and productivity? What would the impact of any proposed changes be on the level of the multiplier and revenue from business rates over time?

- 2.39 The most commonly expressed preference was for a fixed multiplier, with no annual uprating and no resetting at revaluation. Some respondents expressed openness to having the Government set the multiplier through a ministerial decision at fiscal events, potentially with maximum adjustment limits set out in legislation. Respondents also noted that this would permit parliamentary scrutiny of each change. Some respondents expressed openness to a continued floating multiplier, in exchange for a significant rebasing.
- 2.40 Views on the appropriate level of the multiplier varied, including a 50% cut (i.e. to 25p), a cut to around 40p, and a freeze in the level. Several respondents

identified 35p as a desirable level, on the grounds that this was the level of the multiplier in 1990. Other respondents did not propose a specific level, but emphasised the desire for a significant reduction, particularly ahead of the next revaluation in 2023.

- 2.41 In some cases, stakeholders representing small business noted that a cut in the level of the multiplier would benefit larger ratepayers most, so were more focused on targeted support through reliefs.
- 2.42 Several stakeholders drew a link with the valuations process, noting that annual revaluations would help to more rapidly align the tax burden with economic conditions, and therefore remove the need for annual uprating of the multiplier.

Q8 - How should the multiplier and any supplements relate to business rates reliefs? Should these be discrete, or should supplements fund specific reliefs?

- 2.43 Respondents were commonly opposed to the use of supplements, except to fund specific local infrastructure or capital projects, including through Business Improvement Districts. Most were unsupportive of using supplements to fund reliefs, and would prefer these to be centrally funded.
- 2.44 It was commonly noted that having a single rate would reduce complexity and improve fairness for ratepayers. However, stakeholders representing smaller firms were supportive of continuing to use a supplement to fund SBRR.

Q9 - What are your views on introducing additional multipliers that vary by geography, property value, or property type?

- 2.45 A clear majority of respondents were opposed to introducing new multipliers varying by region or locality, on the grounds that this would introduce additional complexity, and that Rateable Values should already reflect regional variations. A standardised regime across the country allows firms to more easily compare costs across regions. This was the original rationale behind the introduction of the Universal Business Rate.
- 2.46 Respondents were also generally opposed to additional multipliers varying by property value, on the grounds that introducing new thresholds could further disincentivise ratepayers from investing in improvements, and lead to bunching below thresholds. A small number of submissions expressed interest in introducing an additional multiplier for high-value properties. However, it was also noted that varying the multiplier by property value could generate inconsistencies given differences in average property prices across different regions.
- 2.47 Views on multipliers varying by sector/property type were mixed. Some respondents advocated for a specific multiplier for the pub sector, for the high street, or for property-intensive sectors. Some also focused on the warehousing sector, advocating for a higher multiplier for this sector as a way to help level the playing field between online and offline retail. Others expressed similar concerns about a sectoral multiplier on the grounds of fairness and simplicity, and were in favour of a unified approach.

Chapter 3

Call for Evidence, Summary of Responses - Tranche 2

- 3.1 Tranche two covered more detailed areas of longer-term reform in scope of the Review: business rates valuations and appeals; plant and machinery and investment; the billing process; and alternatives to business rates.
- 3.2 211 responses were submitted to the Business Rates Review ahead of the deadline for Tranche 2 responses on 31 October 2020. 86 responses were received through the Smart Survey portal on Gov.uk.

Questions 10 – 16, Valuations and transitional relief

Q10 - What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?

- 3.3 Many respondents referred to delays with previous revaluations and commented that this had resulted in payment liability being based upon outdated valuations.
- 3.4 A majority of respondents expressed a preference for more frequent revaluations. Of those who expressed a preference for increased frequency, the greatest number were in favour of 3 yearly revaluations. A sizeable minority were in favour of annual revaluations, with approximately half of these in favour of suggested starting with 3 yearly with an ambition to move to annual subsequently. A similar minority of responses supported moving to straight to annual revaluations. Others were supportive of increased frequency but did not specify a proposed frequency. A small number proposed other timescales.
- 3.5 A majority of Local Authorities were supportive of 3-yearly revaluations. However, some expressed concern about more frequent revals and the possible impact upon the stability and predictability of income needed to fund local services.

Q11 - What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?

- 3.6 Some respondents said that they would require more information as to how banded or zone-based schemes would work before providing considered opinions. Of those respondents who did express a firm opinion, most were against adopting banded or zone-based systems.

- 3.7 Several respondents commented that having precise and specific valuations were important to them as a matter of fairness. Several responses also expressed the view that banded or zone-based systems would result in winners and losers, and that specific valuations were fairer overall.
- 3.8 Some respondents saw benefits from simplifying the current system and considered that banded or zone-based valuations may result in fewer challenges to the rating lists. There was some concern about cliff-edge changes in liability arising from a banded system, and some thought that a system of phasing at band boundaries would be necessary to reduce unfairness.

Q12 - What are your views on changing the valuation process or the information provided to the Valuation Office Agency (VOA), to enable more frequent revaluations?

- 3.9 Respondents were generally supportive of new requirements to provide information in annual returns if this enabled more frequent revaluations to take place. Some respondents expressed the view that the VOA had existing powers to gather information, and that ratepayers already provide a lot of information to the VOA or other public bodies. Several respondents said that the VOA should have access to, and make use of, information which ratepayers had already provided to other public bodies such as the Land Registry, Local Authorities, or HMRC.
- 3.10 Several respondents thought that paper-based information gathering was inefficient, with forms sometimes going astray in the post, and should be abolished. There was a call for increased digitalisation with improved VOA IT systems which would enable ratepayers to upload information, including spreadsheet information, digitally.
- 3.11 Some respondents suggested that the VOA should have greater engagement with ratepayers and their representatives, prior to setting valuation schemes, with a view to agreeing valuations at draft list stage.
- 3.12 Greater transparency was considered important by some respondents who wanted to understand how their valuations had been arrived at, and to have greater access to the rental information used to calculate their valuation.

Q13 - What are your views on the relative importance of the period between the AVD (Antecedent Valuation Date) and compilation of the list vs. more frequent revaluations?

- 3.13 Many respondents thought that the gap between the AVD and list compilation date should be shorter than the current 2-year gap. Of those respondents who expressed a specific view, a 1-year AVD gap was the most popular option.
- 3.14 Of those respondents that commented upon the relative importance between the AVD gap and frequency of revaluations, most thought that they were equally important.
- 3.15 Some Local Authorities expressed concern that a reduced timeframe between AVD and list compilation date may result in a less accurate and robust list.

They thought this may expose them to uncertainty and loss of income resulting from subsequent challenges to the lists.

Q14 - What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?

- 3.16 Excluding respondents who were seeking the replacement of business rates with an alternative (see below for further detail on alternative taxes), there was strong majority support for the existing basis of rateable value. Some respondents commented on the increased prevalence of turnover-linked rents in lease agreements, and stated that the VOA will need to find a way of better reflecting these in the valuation basis for assessments.
- 3.17 A small number of respondents referred to a basis reflecting the 'actual rents' paid by each ratepayer on their property. Some respondents were concerned that an actual rents basis could be open to avoidance tactics, or that multinational companies may be in a better bargaining position to negotiate lower rents by comparison with other ratepayers. Some respondents thought that shortening the gap between AVD and list compilation date would result in Rateable Values being more reflective of actual rents. A minority of respondents thought that a definition based upon actual rents would be fairer.
- 3.18 Some respondents from the Telecoms sector expressed concern over the existing definition as it applied to the Telecoms sector and wanted any basis to reflect the new Code as incorporated in the Digital Economy Act 2017.

Q15 - If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?

- 3.19 The majority of respondents either had no comment or no concerns about valuation methodology. However, there were a number of respondents who had some concerns about the implementation of particular methodologies by the VOA.
- 3.20 Some respondents referred to the interaction between the Rentals and Contractor's Basis (CB) of valuation and the perceived disparity in the resultant Rateable Values for particular classes such as schools and health centres. The apparent disparity resulted in a perception of unfairness between ratepayers.
- 3.21 Comments relating to the contractor's basis included a call to review the cap on age and obsolescence allowances for those buildings which are over 70 years old. Some water utilities companies thought that the statutory decapitalisation rate on their properties should be set at the lower rate which applies to health care, defence and education properties. Other comments on the statutory decapitalisation rate included a call to ensure that it reflects the movement in wider rents more generally.
- 3.22 Some respondents commented upon the VOA's approach to Receipts and Expenditures (R&E) valuations highlighting what they believed to be incorrect approaches to treatment of aspects such as the divisible balance having regard to the landlord's and tenant's assets.

- 3.23 Some respondents thought that the VOA were not sufficiently flexible when deciding upon a valuation methodology and on occasions failed to "stand back and look" after carrying out a valuation to check the result.

Q16 - What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

- 3.24 Most respondents felt that downwards transitional arrangements should be abolished, but support for those with rising bills should be maintained.
- 3.25 Most respondents noted that downwards transitional arrangements unfairly penalised those properties who had seen a fall in their rateable value. Some respondents commented that this was exacerbated for businesses in areas that had seen economic downturn and could stunt economic growth. It was emphasised that businesses such as this should not be funding gradual increases for those facing higher bills.
- 3.26 Similarly, some respondents said that transitional arrangements prevent the system from accurately reflecting actual property market values, and fail to take account of varying levels of local economic growth, meaning that transitional arrangements often have a disparate regional impact.
- 3.27 Respondents suggested that downwards transitional arrangements were in place only due to the revenue neutrality requirement of the scheme, and by removing that requirement businesses with lower Rateable Values post-revaluation would see bills drop much sooner. Respondents commonly felt that the revenue neutrality requirement for transitional arrangements was unnecessary and is unlike any other tax in this regard. Many respondents said that the requirement to be fiscally neutral was a detriment to the design of the relief. Some respondents noted that this added to the confusion of any overly complex reliefs system.
- 3.28 Many of the answers suggested that any upwards transitional arrangements should be funded by central Government. A supplement on the multiplier for all ratepayers to fund those with increasing bills was also suggested by a few respondents, though this was a less popular option than central funding.
- 3.29 Many respondents noted that shortening the revaluation cycle could largely negate the need for any transitional arrangements, as bills would more closely reflect current values, and would be less likely to change significantly between revaluations. It was noted that if the Government still found a transitional relief scheme to be necessary with a shorter and more regular revaluation period, this should only be in place for those facing significantly higher bills.
- 3.30 Some noted that the cap on the reductions in downwards arrangements reduced the benefit that a revaluation should bring to ratepayers. Several respondents said that certain properties never found the full benefits of previous revaluations and were paying rates bills that were not reflective to market values for many years. Most respondents agreed that reductions in ratepayers' liabilities at a revaluation should be reflected in bills immediately.
- 3.31 There were varied comments on the abolition of transitional arrangements. Some noted that they would like to see transitional arrangements abolished completely from the upcoming 2023 revaluation onwards, whilst others felt

that the current transitional period should end in March 2021, rather than 2022, to help struggling businesses meet their actual bills in the short term.

- 3.32 Some respondents suggested that the Government should consult separately on transitional arrangements and any possible alternatives.

Q17-22, Plant and Machinery Investment

Q17 - What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?

- 3.33 The most common example cited was the difference between on-site and off-site consumption of energy generation, which was seen as a disincentive to green energy investment in property. This, alongside the removal of Feed in Tariffs, were felt to disincentivise investment, and calls were made for micro-generation relief to be applied to all small schemes.
- 3.34 There was also a call to increase the limit on the size of microgeneration relief to incentivise larger scale investments and to operate in accord with decarbonisation objectives.
- 3.35 Some respondents felt that P&M issues are the source of supposed “incorrect valuations” found within the contractors’ method of valuation, although there was limited explanation of when this happens. This was linked to the call for a full committee review of P&M covered in Q18.
- 3.36 Water Companies proposed that structures constructed in response to climate change and mitigation should be exempt, citing rating costs attributable to flood protection for their sites reduces funding available for other investment.

Q18 - Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?

- 3.37 The most common response was in respect of Green Energy with a call by over 40% of all respondents for either temporary or permanent exemptions for the various forms of green energy generation. Almost all mentioned Solar and Wind but all forms of green energy were referred to by a number of respondents.
- 3.38 A number of respondents called for a full Committee Review, with almost all of these respondents citing the time since the last review as the reason. There were very limited examples given of where the P&M regulations were out of date, other than microgeneration treatment in Class I. There were, however, some calls for mothball allowances or temporary zero rating for P&M which cannot be used for long periods in some industries.
- 3.39 Some went further and called for a full Committee review to be undertaken regularly in line with each Revaluation, in order to keep P&M regs up to date. Some suggested that without this, heavy industry is unequally impacted, as new technology is not assessed.
- 3.40 Some commented on the Iceland v Berry (2018) decision and that the need for clarity on this would be best determined by a Committee Review. Museums

for example believe that their own and other industries use of air-con should be treated as a tool of the trade and removed from assessments.

- 3.41 Some called for Hydrogen storage and manufacture to be treated as Green Energy and exempted from Business Rates, with either full review or exemption applied to all Green Energy.
- 3.42 Some respondents, many from the retail sector, called for the removal of P&M from all assessments. Where others suggested P&M amounting to less than 10% should be excluded from valuations.
- 3.43 Respondents from the Telecoms sector called for all P&M associated with 'fibre networks' to be excluded as 'tools of the trade' and for fixed infrastructure P&M (masts, fibre, ducts) to be treated as process P&M. There was also a call to extend Fibre Relief and for Telecoms Networks to be included in the Central List.

Q19 - What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?

- 3.44 No specific examples were provided other than the Scottish Growth Accelerator, with over 20% of all respondents favouring some form of similar time limited relief. There were various suggestions for how long this should apply varying between 1 and 15 years from date of investment, with the most common suggestion being 1 and 3 years. Respondents suggested that the relief should apply to new and extensions to buildings and either all, or at least Green Energy and decarbonisation investments, to remove or reduce the time lag over investment payback.
- 3.45 There were other suggestions for incentivising investment in both P&M and in property generally. This particularly included suggestions for Green Energy generation ranging from complete de-rating to exemption from P&M within Class I.
- 3.46 A number of respondents suggested that the same objectives (and wider Government policy aims generally) could be better targeted through grants or reliefs on other taxes.
- 3.47 Some suggested that there should be relief given to additional mandatory P&M intended to improve Health & Safety or security, for example, fire protection, alarm systems & security cameras.
- 3.48 Some respondents referred to a belief that the assessment of P&M undermines other government initiatives such as Green Homes Grant, Social Housing Decarbonisation Fund, and Public Sector Decarbonisation Scheme.
- 3.49 When considering reliefs generally, there were some expressed concerns that time limited reliefs can lead to unfairness and discourages investment.
- 3.50 Water companies called for exemption Class 4 civils (walkways, platforms, stairs and pad foundations etc) as they usually result in a relatively small amounts of Rateable Value, but require a substantial amount of work to identify and value.

Q20 - What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?

- 3.51 Very few respondents made any comments in respect of this question. Those that did, generally responded in respect of green energy or a specific industry, where it was thought that the overall impact on Rateable Value would have a relatively small impact on the multiplier or could be off set against the scale of investment required to meet zero carbon target.
- 3.52 Some suggested that more exemptions to the general principles behind how P&M is assessed could make the valuation system more complex to understand. Disputes may then occur over specific items of P&M being covered by such new exemptions, suggesting that any new exemptions would therefore need to be carefully drafted.
- 3.53 There were calls from Local Authorities and ratepayers with no P&M for any such reliefs to be time limited, to prevent the extra burden of the P&M elements falling to them.
- 3.54 There was recognition that certain items of P&M (i.e. heating & lighting) are intrinsic in the fabric of a building and would be difficult to exclude from Rateable Value if exempted.

Q21 - How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?

- 3.55 The most favoured approach was a time limited relief similar to the Scottish Growth Accelerator, for between 1 and 3 years from the date of investment, applying to all new (or at the very least to Green Energy and decarbonisation) investments, including extensions, to remove or reduce the period between investment and payback. Variations on this theme were expressed across the responses to a variety of questions.
- 3.56 Many cite exempting Green Energy, or at least increasing the microgeneration relief, as the most important decarbonisation changes, alongside references to the Feed in Tariff.
- 3.57 Many suggested that a general reduction in the multiplier as the best way to encourage investment. Whilst some local authorities and others indicated that local authorities should have greater discretion in setting at least part of the multiplier as they have a better appreciation of where the investment should be directed locally.
- 3.58 Some indicated that incentives intended to encourage business growth should be better targeted at source, suggesting approaches such as the Capital Allowance system as an example of a better long-term way to reward sustainable development rather than business rates. The reason being the feeling that business investment via BR distorts behaviour within the system.

Q22 - How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?

- 3.59 The most common response was for either a permanent or temporary exemption from Business Rates, for energy efficiency and decarbonisation measures, similar to current microgen exemption, or Growth Accelerator style

temporary relief. To enable companies to recoup the higher cost of decarbonisation investment options when expanding or refitting.

- 3.60 For variable rates dependent upon energy performance (Energy Performance Certificate EPC), there was recognition that care would be needed to ensure that any such system did not disproportionately reward those who can more easily afford to make improvements or whose premises are newer and already of a higher specification. A business rates discount for a qualifying expenditure or period of energy efficiency measures (EPC) linked to actual reduction in energy use should be aimed at retrofitting those properties most at need.
- 3.61 Some expressed concerns over the fact that often it is the property owner that makes the decision to invest in decarbonisation and it is the occupier that would benefit from the reduction in Business Rates. As a result, a Business Rates relief is not necessarily the best way to fairly incentivise such investment.
- 3.62 Some sought the removal of any uncertainty about future rating of EVCP's (Electric Vehicle Charging Points), so investors can make decisions safe in the knowledge that these will not be rated in the future.

Q23-25, Valuations transparency and appeals

Q23 - What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?

- 3.63 A number of respondents felt that the CCA Portal and the API (Application Program Interface) can be frustrating to access and not user friendly. There was recognition of the improvements made in recent months, which have improved claiming properties and uploading documents. However, respondents commonly suggested that there is more needed to enable a smoother interaction with ratepayers or their agents or representatives.
- 3.64 Some respondents felt that potential areas for improvement included changes to the Government Gateway, improvements to the process for claiming properties to allow agents (or representatives) to claim properties on behalf of their clients, and API improvements to allow agents' software to work with VOA systems.
- 3.65 A number of respondents commented on the need for the VOA to be adequately resourced to deal with Challenges. Some respondents said they would like greater interaction with the VOA earlier in the process. Suggestions included earlier identification of the valuer allocated to a case and improving communications during the discussion period.
- 3.66 Some respondents suggested that Rateable Value should not be increased as a result of Check, and that this should be dealt with as part of a Challenge.
- 3.67 Respondents commonly expressed the view that CCA time limits should be reduced in order to resolve cases quicker. Concerns were raised about the financial burden on ratepayers waiting a long time for a Check and Challenge to be completed. Amongst the majority of respondents who sought changes to the Check and Challenge time limits, there was fairly broad support to

reduce VOA statutory time limits to 6 months for Checks and 12 months for Challenges. However, a small number of respondents would like more time to be allowed for dealing with Material Change of Circumstances (MCC) Challenges.

- 3.68 A number of respondents commented on the need for the VOA to be adequately resourced to deal with Challenges. Some respondents said they would like greater interaction with the VOA earlier in the process. Suggestions included earlier identification of the valuer allocated to a case and improving communications during the discussion period.
- 3.69 Respondents commonly indicated a preference for greater transparency with respect to the rental evidence used to calculate individual valuations.
- 3.70 A small number of responses called for the fee for raising an appeal at Valuation Tribunal be reviewed.

Q24 - What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?

- 3.71 Some respondents noted that the VOA already has powers to request information, and concerns were expressed about the burden on ratepayers of sharing information upfront. However, others were supportive of greater information sharing with the VOA.
- 3.72 Of the small number of respondents who expressed a specific view on the VOA sharing evidence, some wanted to see sharing more information earlier in the CCA process with the ratepayer. A small number thought rental information should not be shared, particularly confidential or commercially sensitive trade information – including, for example, where turnover-linked rents could be used to ascribe turnover data. There were also suggestions of seeking consent from the ratepayer to share information, sharing evidence with Local Authorities for forecasting purposes, and reducing numbers of Challenges by sharing more information at Check.

Q25 - What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?

- 3.73 A majority of respondents replying to this question wanted to see no changes to rules governing who can make, or be a party to, a challenge or appeal. A small number suggested that only ratepayers, and not landlords, should be able to make proposals.
- 3.74 A small number suggested that Local Authorities should also be able to make, or be party to, Challenges and Appeals, while a few responses explicitly expressed opposition to this suggestion. A number of respondents thought Local Authorities should have access to CCA data to support forecasting and managing fiscal risk. Some respondents thought that agents should have greater access to CCA system, some saying that ratepayers should be able to provide agents with authorisation/instruction to be able to do so. There were a range of other suggestions including access for landlords and public access to the CCA system.

- 3.75 With regards to grounds for appeal, the most common preference was similarly for no change. Although, adding 'new' was proposed, or alternatively limiting to Challenges against compiled list and list alteration, and reconstitutions.

Q26-28, Maintaining the accuracy of ratings lists

Q26 - What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?

- 3.76 More than half of respondents agreed with the introduction of a requirement to provide the VOA with rental/lease information, with many commenting that this would be vital in allowing the VOA to keep rating lists up to date and improve accuracy, and would contribute to a more responsive system supporting more frequent revaluations.
- 3.77 A small number of respondents disagreed with the proposition, with most of those disagreeing suggesting that it would create more bureaucracy and expense for ratepayers, and expressing concern that the VOA would struggle to cope with the volume of information at current resourcing levels. Many noted that the VOA already seeks rental data through its Form of Return (FOR) and Rent and Lease Details (RALD) processes, and already has the statutory powers to collect this information. There were several suggestions that these processes should be improved rather than introducing a new requirement on ratepayers. A small number indicated that with the move to 3 yearly revaluations there would be no need for mandatory provision of rental information as this data would be picked up through the shortened revaluation cycle.
- 3.78 Of those who agreed with the proposition, a large number noted that it was important that the requirement did not duplicate information already provided to other Government departments, leading to an unreasonable burden on ratepayers. Some suggested it could be aligned with an expanded Land Registry system, linking in with existing registration of leases of 7 years and above, or linked to HMRC digital tax accounts. There was also a clear desire expressed both here and under Question 12 for the collection of this data to be fully digital, user focused, and simple to understand, with suggestions that the provision be set out in a standardised form. A large number of respondents to both questions felt that use of paper-based forms was outdated and inefficient.
- 3.79 Views on whether this information should be collected on an annual basis or following changes to leases were evenly split. Those who favoured a 'lease event' trigger felt this would avoid ratepayers having to routinely provide the same data, and that it could be required within a set time frame of the event. The majority of those who preferred routine provision suggested this be on an annual basis, with some suggesting it could be built into the regular tax cycle of annual returns. A number expressed concern that submissions would be required even when no relevant changes had been made, and there were several suggestions that it should be possible for ratepayers to submit a simple "nil return" where no changes have occurred. There was recognition that

mandating provision of this information would require a compliance structure, including penalties.

- 3.80 There was a clear desire for the provision of rental data to be part of a “quid pro quo” with the VOA, particularly those in the retail, hospitality, and leisure sectors, who indicated that they would be in support if it was associated with more regular revaluations and a more open culture of sharing information early in the Check, Challenge, Appeal (CCA) process. This was echoed in responses to Question 24 where there was some overlap in views. Many respondents highlighted their acceptance of the need to share information with the VOA, but had expectations that more information should be shared with ratepayers in return.
- 3.81 A number of Local Authorities also expressed support for the requirement to provide rent and lease data, with an interest in the data collected being shared with the relevant Local Authority for business rates administration purposes.

Q27 - What are your views on making a register of commercial lease information publicly available?

- 3.82 Of those who were generally supportive of a public register, the overwhelming view was that it was a step towards greater transparency, allowing ratepayers access to information about rents, and there was a suggestion that it could lead to fewer challenges. However, a number recognised that there was a danger that, on its own and without context, full transaction data could be misleading and may not provide the insight ratepayers are seeking to understanding Rateable Values.
- 3.83 Local Authorities were largely supportive of a public register, noting that it could assist them with highlighting long term empty commercial premises or tackling fraud.
- 3.84 A number of respondents were in favour of a register being available to certain parties, such as agents and ratepayers using the CCA portal, and that a more general summary of information could be provided for a basic public register. However, there were also suggestions that if VOA provided full details of rents and evidence used at Check stage, a public register would not be necessary.
- 3.85 There were also a considerable number of responses that highlighted current publicly available databases of lease information in England and Wales, with the suggestion that these already function as a public register, or could be enhanced to achieve the same aims. Existing commercial products which make transactional data available were highlighted, and there were also suggestions that the Land Registry register of leases, which is publicly available for a fee, could have its requirements amended to include registration of leases exceeding three years, rather than the current requirement of those exceeding 7 years. A small number of responses called attention to the public lease register that operates in Ireland, pointing to this as an example of a publicly available system that successfully shares lease data without disclosing confidential commercial information.
- 3.86 However, amongst nearly all respondents there was concern about the sensitivity of the data that could be disclosed in a public register. Both those who generally supported the idea and those who were against it noted that

many commercial leases feature side letters and agreements that contain commercially sensitive data, and that it would not be appropriate to have this publicly available. Respondents also raised concerns about potential conflict with existing regulations and GDPR principles. Some respondents expressed the view that a public lease register could have significant impacts on rental values, possibly allowing landlords to cherry pick higher rents, and reducing competition. Some felt it could give tenants stronger bargaining powers, but more feared it would encourage landlords to increase rents. There was a suggestion that should this option be taken forward it should be subject to a wider, separate, consultation.

Q28 - What are your views on introducing a requirement to notify the VOA or Local Authority of changes to a property that could impact the business rates liability?

- 3.87 Around half of all respondents responded positively to the idea of introducing a requirement to notify of changes to a property that could impact its business rates liability. Several respondents were concerned that it could create more bureaucracy and additional administrative cost for ratepayers. The Telecoms sector in particular felt that a requirement to notify of all changes would risk placing a significant burden on both operators and the VOA.
- 3.88 However, in general, mandating the collection of this information was considered valuable for building up an understanding of non-domestic properties. Local Authorities in particular were notable in their support for mandating this information, with some indicating that it should be introduced alongside greater powers of inspection for Local Authorities.
- 3.89 There was concern among a number of respondents about ratepayers' ability to navigate the system, with many noting that ratepayers would not be able to determine the sorts of changes that would require notification without professional input, and that they could inadvertently become non-compliant and subject to penalty. Across all respondents there was agreement that there would need to be clear guidance on what changes impact liability to ensure that ratepayers can comply.
- 3.90 There were also questions about how the requirement could be enforced, to ensure that it remains fair. Various respondents queried how past omissions and errors would be handled, and a number suggested there would need to be incentives for ratepayers to come forward without risk of penalty. Many also noted that this could lead to backdated changes to liabilities, and a number of respondents suggested an amnesty period for disclosure, or implementing a requirement that the VOA should not be able to backdate beyond 1 April of the current financial year.
- 3.91 For those that were in favour, there was most support for annual declarations, made through a centralised digital system that is as simple as possible to reduce the burden on ratepayers. There was no clear preference for whether the duty to notify should be to the VOA or Local Authorities, however most Local Authorities indicated an expectation that the information would flow to them, and that it would be useful for their functions.

Q29-32, The billing process

Q29 - How can the current billing process be improved? What changes would provide the most significant benefits to ratepayers through for example, cost or time savings?

- 3.92 Respondents generally expressed dissatisfaction with the current billing process. A large number of respondents proposed a move to a digital billing system allowing ratepayers to receive bills electronically. Some respondents suggested that a move to digital billing should be accompanied by a centralising of the non-discretionary elements of the business rates system. A number of respondents suggested that access to an online portal should be extended to representatives as well as ratepayers themselves.
- 3.93 Respondents also prioritised standardisation of bills across Billing Authorities, particularly larger firms such as retail chains who felt that this would allow greater efficiency and automation of the billing process across high volumes of properties. Disparities in software and processes between Billing Authorities was identified as a concern by these respondents.
- 3.94 Some respondents also expressed the view that the number and complexity of reliefs makes bills more confusing to ratepayers, and accordingly felt that the simplification of reliefs would assist with improving satisfaction with billing. Billing Authorities also expressed the view that the billing process would be made much smoother for councils and ratepayers if central Government gave greater notice ahead of the introduction of new reliefs, or changes to existing reliefs.

Q30 - What are your views on a centralised online system linked to other business taxes, enabling more joined-up data and management of billing across different locations? How could this best support ratepayers and Local Authorities?

- 3.95 Several respondents expressed support for the introduction of a centralised online system. Respondents commented that a central billing system featuring standardisation and uniformity of bills would support firms to better understand business rates calculations and plan accordingly. Some thought that a centralised system would simplify existing processes and reduce administration costs. Other respondents qualified their support for a centralised system, for instance to ensure that localism was maintained.
- 3.96 Respondents emphasised the need for any new system to be easily accessible and fully operational.
- 3.97 A small number of respondents were opposed to centralised billing. These respondents felt that this would be a move away from localism, and would be difficult to administer due to the complexity of the business rates system and the localised nature of billing. They were also concerned about the potential for poor user experience, reflecting experience of other Government IT systems. Some did not see a need for change as they understood the current system and think that it works effectively. The high collection rate of business rates revenue was given as evidence of this.

Q31: What sort of support would businesses and agents expect to receive when moving to a centralised online process, and from where would you expect to receive it?

- 3.98 A variety of suggestions for support were provided, ranging from consultation during building the system to telephone support on implementation. There were also requests for training materials (possibly online), clear communications, and webinars to help build knowledge. Respondents also expected support from Government departments and Local Authorities. A few respondents thought that phasing in any system would be helpful for businesses. A limited number of stakeholders were of the opinion that if the system was designed carefully, there should not need to be any support.

Q32: What, if any, criteria should be applied in exempting certain ratepayers from online billing?

- 3.99 The majority of respondents thought there should be exemptions for particular small businesses or those without an online presence, including where age, location, or infirmity would prevent participation. Some suggested that the existing exemptions rules for Making Tax Digital for VAT should be followed for consistency. There were also calls for ratepayers to be able to opt-out and to continue to receive paper bills. A few stakeholders suggested that there should be no exemptions.

Q33-43, Exploring alternatives to business rates

Q33 - What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?

- 3.100 Respondents were widely opposed to the replacement of business rates with a Capital Values Tax (CVT). Most respondents felt that the benefits of a CVT would be low or non-existent, and that the drawbacks would be significant.
- 3.101 Potential difficulties in implementation were commonly highlighted, most notably the current lack of a comprehensive register of freehold property ownership. Most respondents felt that this could make it challenging to locate property owners in order to pay the tax, particularly where these are non-domiciled, or part of a joint-ownership structure. Leasehold vs freehold ownership would also need to be considered.
- 3.102 Many respondents also emphasised that switching to a new tax to replace business rates would be highly disruptive for firms, including requiring leases to be renegotiated.

Q34 - What evidence is there of the benefits that replacing business rates with a CVT would have in practice, for example, on business investment and growth?

- 3.103 Most respondents felt that a CVT would have little or no positive impact on investment or growth. To some extent, a tax levied on owners may incentivise occupiers to undertake further investment in improvements to the property; but the potential for the burden to be passed onto occupiers through higher rents would limit this incentive.
- 3.104 It was noted that any transition costs imposed on firms to move a new system may also limit the pool of capital available for investment in the short run.

Q35 - How can land and property be valued fairly and efficiently under a CVT in England? What evidence is available to do this?

- 3.105 It was widely argued that liabilities based on capital values could be more challenging to assess than liabilities based on rental values, because the lower volume of capital transactions would provide a smaller evidence base. This could accordingly reduce the transparency and clarity of valuations, including for tenants, and lead to inconsistencies. These outcomes could, in turn, prompt higher appeals volumes. Capital valuations would likely also need to take account of planning permissions, adding a further layer of complexity.
- 3.106 It was also noted that valuations based on transaction values could incentivise tactical pricing or misreporting of sale values.
- 3.107 Some respondents were more supportive of a CVT, on the grounds that this would offer a more stable basis for valuations than rental values, which are typically more changeable than capital values.

Q36 - How would replacing business rates with a CVT affect the distribution of taxation?

- 3.108 Several respondents also focused on the overall burden on businesses, arguing that replacing business rates with an alternate CVT may not reduce the burden, if it sought to maintain the same revenue target. This could also have the effect of concentrating the burden on a relatively smaller number of property owners, such as pension funds with broader adverse consequences.
- 3.109 It was noted that a CVT would disproportionately affect businesses requiring high land use, such as industrial manufacturing.

Q37 - What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the Government ensure effective collection from and compliance by these taxpayers?

- 3.110 Potential difficulties in implementation were commonly highlighted, most notably the current lack of a comprehensive register of freehold property ownership. Most respondents felt that this could make it challenging to locate property owners in order to pay the tax, particularly where these are non-domiciled, or part of a joint-ownership structure. Leasehold vs freehold ownership would also need to be considered.
- 3.111 As regards shifting the liability from occupiers to owners, some respondents noted that this would be more economically efficient in principle, and thought that it could encourage greater levels of investment in properties. However, many respondents noted that the cost would likely be passed on to occupiers through higher rents. It was also argued that owners may derive little benefit from local authority services, and should accordingly not be responsible for funding these; and that a tax on owners would make it harder for the Government to support occupiers through targeted reliefs.

Q38 - What lessons can be learned from other countries experiences with CVTs?

- 3.112 Few respondents provided international evidence in response to this question. Some respondents highlighted the UK's higher dependency on property tax relative to other jurisdiction in response to this question.

3.113 In response to the examples given in the Call for Evidence – Brazil and California – the use of CVTs in these jurisdictions were viewed to have generated a significant degree of uncertainty around valuations, leading to notable discrepancies, as well as practical challenges in implementation. Some respondents felt that examples such as these bore limited relevance to the UK.

Q39 - What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?

3.114 Few respondents advocated for other alternative taxes, and most answers to this question focused instead on reducing the burden of business rates.

Q40 – What would be the benefits and risks of introducing an Online Sales Tax (OST)?

3.115 There was a wide spectrum of stakeholders represented in responses including individuals, SMEs, large retailers with both online and offline presence, online only retailers, and Local Authorities. Represented sectors included the hospitality and leisure industry, retail, local Government, the telecoms sector, agents, charities and others. They identified a wide range of benefits and risks.

3.116 Respondents in favour of an OST frequently argued that it would provide a way to more fairly distribute the tax burden that offline retailers currently face.

3.117 Some respondents argued that an OST would be an opportunity to ‘level the playing field’ so that online retailers pay a tax on doing business where benefit is derived, in the same way offline businesses pay business rates for property they occupy.

3.118 In general, the vast majority of stakeholders appreciated the difference between Business rates and an OST and that an OST is unlikely to replace Business rates, given the large amount of revenue that is generated from Business rates. However, several respondents were in support of ringfencing an OST so that revenue generated from an OST would go towards business rates reductions. A sizeable minority of respondents also suggested that an OST may help to rejuvenate the high street and help to re-establish tourism and communities there as a result.

3.119 However, there were some responses that argued the alternative: that an OST would not save the high street and should not be introduced if this is the sole aim. The respondents stressed that the retail economy is changing, with more people purchasing online, and that an OST would be a tax on innovation and investment in the UK’s growing digital economy and may lead to market distortions.

3.120 A major risk frequently emphasised by respondents was that retailers would pass on the OST to consumers, increasing prices and affecting people’s disposable income and quality of life. A sizeable minority of respondents specifically argued that this would mostly affect low income households who spend a larger proportion of their dispensable income on retail. They argued that this would also affect the vulnerable and those in rural areas that rely on online shopping for their basic needs.

3.121 Some respondents focused on the difficulties with implementing an OST. A small minority of respondents suggested implementing the OST through the VAT system, however, they noted complexities that this would still bring.

- 3.122 Others recommended reform to other taxes such as Corporation Tax and the Digital Services Tax, rather than the introduction of a new tax in order to fix any disparities between offline and online retail.

Q41 – Which services and products do stakeholders think should be subject to an online sales tax and what evidence is there to support this?

- 3.123 A sizeable number of respondents in favour of an OST suggested that all online goods sales should be in scope, while others advised applying the same exceptions as the VAT system. There was general agreement that SMEs and smaller retailers should not come within the scope of an OST, and rather focus should be on large, profitable online retailers.
- 3.124 However, some respondents also noted that as well as online retail sales, which account for approximately £100 billion in the UK annually, the wider value of UK online sales (excluding financial services) is £700 billion annually and these respondents argued that sales including travel, accommodation, and software which previously would have occurred on the high street should also be in scope. These respondents stressed that uniform business rates reductions would be provided to all rate payers across industries, whereas the OST would just be paid by online retailers, which they considered unfair.
- 3.125 Respondents that specifically addressed a delivery tax option as an alternative were divided in their opinions; whilst those in favour suggested this would be a good way to address how economic activity is taxed and suggested that deliveries from online sales arguably cause greater externalities such as congestion and pollution, others claimed that a delivery tax would not address environmental sustainability issues especially given an increased investment in more efficient delivery vehicles may mean that the environmental concerns related to delivery are reducing.
- 3.126 Several respondents noted that an online sale would be difficult to define, and some respondents claimed that a delivery tax could be more workable and not have the difficulty in identifying whether an online sale has been transacted online and/or offshore.
- 3.127 A large majority of respondents were of the opinion that click & collect should be carved-out of an OST.

Q42 – What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?

- 3.128 As mentioned above, the majority of respondents who were against an OST were concerned about pass-through to the consumer and, in particular, affecting those in the low-income brackets. A number of respondents noted instances where companies had publicly declared an intention to charge vendors to fund Digital Services Tax liabilities, and that this could also be the case for an OST.
- 3.129 Several respondents stressed their opinion that an OST would not change consumer behaviour, as online shopping is usually due to the variety of choice available and convenience rather than price, and so would do little to bring consumers back to the high street.

Q43 – How could an online sales tax affect the distribution of taxation?

3.130 This question was addressed largely in respondents' answers to other questions in the survey. For example, proponents of an OST noted that online retailers, which would be fairer to bricks-and-mortar retailers. However, respondents' concerns on pass-through highlighted their views that consumers may end up paying for the OST.

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