



bira

British Independent Retailers Association

Business Rates Manifesto Sept 2018

Introduction

“Business rates” is the commonly used name of a tax on the occupation of non-domestic property (National Non-Domestic Rates – NNDR). A rating list is required to identify each relevant non-domestic property in an area, and then the business is assigned a rateable value based on a rental valuation of the property.

For each property in the rating list for their area, the local authority then calculates and issues a bill, which it is responsible for collecting, with powers to pursue payment.

A company’s business rates bill may be reduced through business rates relief. These reliefs are administered by the local authority and whilst some are mandatory, others are at the discretion of the local authority in which the business operates. Whether the business rates are mandatory or discretionary, the local authority must bear (in part or in whole) the cost of these reliefs. The types of relief are:

- Empty and partly occupied relief (discretionary): level of relief is apportioned depending on the rateable value between empty and occupied parts of the building;
- Small Business Rate Relief (mandatory): this is 100% for properties with a rateable value under £12,000 (as of April 2017), and then tapered up to £15,000;
- Transitional relief (mandatory): if the rateable value of a property changes significantly because of revaluation, the rates will change gradually because there are limits on how much the rates can increase or decrease each year.

It is estimated that the non-domestic rating income for 2018-19 will be £24.8 billion, an increase of £847 million, or 3.5%, on the figure for 2017-18¹. Of this income, the retail industry currently contributes £7 billion of business rates annually – nearly one-quarter of all receipts – far more than any other industry².

Government Policy

bira understands that the Government needs income to provide the services that individuals and businesses use every day. Business rates are simple to collect and ensures that avoidance is minimised.

Help has been given to smaller businesses as:

- small business rate relief has been permanently doubled from £6,000 to £12,000. In addition, if a business’s 2017 rateable value is between £12,001 and £14,999 inclusive, the small business rate multiplier is used and relief is given on a sliding scale - from 100% at the bottom of the range to 0% at the top;
- all businesses with a rateable value of under £51,000 have the small business multiplier applied which is 46.6p instead of 47.9p; and
- the Chancellor’s 2018 Spring Statement announced the bringing forward of the business rates revaluation to 2021 and triennial revaluations going forward³.

The Government predict that these changes will help 600,000 small businesses, occupiers of a third of all properties, and provide a saving for these businesses of £6.7 billion across the next 5 years. An additional 50,000 will benefit from tapered relief³.

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General issues with Business Rates

Smaller shops are finding that whilst their profitability has remained stable over a period, the shop value has increased over the same time-frame. This means that the Government will increase the rate value of the property, often beyond the reliefs, whilst there has been no change in profit and staff costs.

Business rates are not charged on a businesses profitability and it is bira's contention that this creates a system that fails to place the burden of taxation on those most able to pay. Indeed, two shops on the same high street with exactly the same property, would have exactly the same rateable value – and therefore the same business rates bill. This is even though they may have different levels of profitability and therefore have totally different capacities to pay that bill. This can put unreasonable pressure on small hereditaments, like independent retailers, that are often working within small margins, and just emphasises the fact that this tax is currently unable to consider any nuances that could help ensure that the tax a business pays is reasonable on the basis of capacity to pay.

Many retail businesses have had an increase in rateable value whilst the average bill for Amazon's nine distribution centres have fallen by an average of 1.3% or £147,632 in the revaluation. This is because whilst Amazon owns 20 million square feet of warehousing from which to supply consumers, this does not attract the same level of business rates as they do not have to occupy premium premises in order to get the footfall that a high street retailer would need to be profitable. Considering the advantages that Amazon already have over the high street (including the ability to charge lower prices but maintain their margins) it is therefore very obvious that the current system does not promote an even playing field for businesses.

Whilst there has been an increase in threshold of SBRR from £6,000 to £12,000 (with tapered relief available from £12,000 and £15,000), the average business in England has a rateable value of £34,000. As any help is removed after the £15,000 RV figure, this means that in reality only the very smallest businesses are given any help at all. Instead, even smaller than average businesses will have business rates bills calculated on a multiplier of just 1.3p less than businesses with rateable value of more than £51,001.

Finally, the current system is extremely complex for high street retailers and because of this, there is a risk that investment from overseas could be dampened. Therefore businesses that are increasingly under threat will have fewer options regarding diversification or adapting to the new business conditions in which they find themselves which again reduces a business's ability to maintain its position in the market.

bira's action call

The changes that have been made show that concerns that disproportionate and unfair re-evaluations will damage UK businesses have struck a chord.

bira therefore welcomes Government support for smaller businesses but wishes to work on a simple solution to help smaller retail businesses thrive in a world where online retail is proving a challenge.

bira therefore believes it would be much simpler to just apply a business allowance, using the same principle of the personal allowance applied to income tax. This would mean that a wider group of hereditaments – those that often struggle with the tax – would see a reduction in their rates.



The Government must move to soften the impact of the latest rates revaluation and protect our High Streets and independent shops by creating a new fair rating system for modern retailing.

Alan Hawkins, Chief Executive Officer, bira



The main issues with SBRR

The £12,000 threshold (with a small amount of taper to £15,000) for small business rate relief imposes significant administrative burdens on the smallest businesses, since SBRR needs to be applied for rather than being applied automatically, unless a local council chooses to calculate the relief where there is a continued entitlement without a business having to re-apply⁶.

bira's action call

bira would like the Government to commit to not just full transparency regarding how SBRR and transitional relief works, but also a set of guidelines for local councils to ensure that there is a standard application of the rules to ensure that businesses fully understand what they need to do, and what their obligations are. It would also help promote best practice as councils would be able to learn methods to streamline application processes ie: allowing businesses to just apply for a relief once.

This will make the rules much simpler for smaller retail businesses, help all businesses to understand the rules therefore help collection rates. It would also allow small business owners to concentrate on making their business profitable. This in turn could then increase tax receipts for the Treasury through other means.

A simpler, standard rateable allowance would help independent retail businesses.

Surinder Josan is the bira National President 2018-19 and owner of hardware shop All Seasons DIY in Smethwick, West Midlands.

 *Retail has evolved over the last decade. New businesses entering the field are pushing the way forward, bringing in new and exciting ways to reach consumers. The business rates model which was applicable decades ago is simply no longer fit for purpose. It's time to apply new methods of taxation to address the imbalances across the bricks and mortar and digital landscape.*



The issue with “Check Challenge Appeal”

In April 2017, the Government implemented a new system called check, challenge, appeal. The three stages of this system are:

1. Check stage, in which facts concerning the property are agreed between the Valuation Office Agency (VOA) and the ratepayer;
2. Challenge stage, where a ratepayer believes the rating list entry is still inaccurate so they can challenge the valuation or other aspects of the entry for the property
3. Appeal stage, which allows ratepayers who disagree with the assessment set out in the Valuation Office Agency’s decision notice following the challenge stage (or in cases where a decision notice has not been issued) to seek a decision from the Valuation Tribunal for England

Only 5,650 businesses appealed against their rates valuation between April and September 2017, compared to 115,200 during the same period in 2010 .

This is of no surprise considering that the “Check, Challenge, Appeal” system has massively increase of the length of time of the process overall, making it time consuming for small businesses, businesses that need to maximize their time ensuring their business is profitable (through longer opening hours or time to assess what stock sells at a higher premium). Indeed, a property can remain in ‘Check’ stage for up to 12 months, the Challenge stage can only be instigated by the ratepayer within 4 months of the conclusion of Stage 1, with a further 18 months allowed to conclude the Challenge. It could therefore be just short of 3 years from starting the process until any decision is made by the VOA, which could put pressure on businesses over a long period of time.

There is also a fee of £150 for small businesses and £300 for other businesses to appeal, as well as the ability for the Government to put in place a penalty of £500 for the provision of false information “carelessly, recklessly or knowingly”. This puts a lot of pressure for small businesses to spend extra time checking and rechecking their appeal in order that they don’t accidentally fall foul of the rules. In addition, as opposed to simply claiming an assessment is excessive, the ratepayer is now required to set out grounds for the challenge, substantiate reasons for the challenge, backed by supporting evidence, and an alternative. This is whilst the VOA do not need to give any explanation as to why they have valued the property as they have.

bira’s action call

bira believes that the Government could look to put in place a faster, simpler approach for small businesses. This would be a more agile process that could be undertaken quickly and not take too much time away from them running their business.

bira wonders if the Valuation Tribunal for England could challenge the VOA as opposed to putting the burden of proof on businesses. This would help businesses, as well as make the fine more palatable for a company if their appeal is not successful because they haven’t done all the work and been fined for the privilege. It would also take away the opportunity for the VOA to subjectively delay resolution as there would be less information for a company to supply and therefore less risk that a challenge is incomplete.

Finally, bira would like the Government to consider whether there could there be a rise in the thresholds of fee levels or instead apply a certain percentage of the amount in dispute as the fee. This would be a more effective disincentive for large businesses submitting unsubstantiated appeals while not disproportionately deterring small businesses from making legitimate appeals. Otherwise, smaller businesses could be discouraged from lodging an appeal, whilst bigger businesses will still lodge appeals if they thought it was worth it.



We need thriving high streets, strong independent retailers and local economies that match the exceptional growth that UK plc has experienced since 2010

**Marcus Jones MP, Parliamentary Under Secretary of State
(Minister for Local Government)**

Conclusion

In conclusion, the Government believes that they “need thriving high streets, strong independent retailers and local economies that match the exceptional growth that UK plc has experienced since 2010”. In addition, concerns that disproportionate and unfair revaluations will damage UK businesses have been accepted by the Government. In order to realistically deal with this situation, bira believes that an overhaul of rates would help the retail sector, ensuring the survival of small shops that pay a number of taxes to the treasury .



John Horwood has owned the Kennedys Mica Hardware store in Rubery, Birmingham, since 1987. He points out that rates are increasing for many while trade is depressed.

bira's action call

We're proposing a change from a business rates “threshold” to an “allowance” system.

This would redress the current imbalance and benefit smaller retail businesses with a reduction in their bill, which could be the difference between closing or surviving in 2018 and beyond.

The system is massively unfair. I am paying £8,591 a year in business rates for my double-fronted shop, which covers 1,100sq ft of selling space with 100sq ft storeroom. On top of that I have rent and fuel costs. This year has not been brilliant, we have been -4% down, -1% down and about equal on last year in different months. Yet costs just keep on going up. We need a fairer business rates system.

John Horwood, Owner, Kennedys Mica Hardware, Birmingham

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Business rates are our biggest headache. Our rates increased from £18,500 to £24,000 as our basic rateable value almost doubled, which resulted in a 30% increase in the bill and it's due to increase by another £2,000 next year. What is frustrating is that the money is not really going back into the town. It is being spent across the county.



Monika Curry runs Bodenhams fashion store in Ludlow, Shropshire, with her husband Roger, whose family has owned the business for five generations.



bira business rates manifesto

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About bira

The British Independent Retailers Association was established in 1899 to make the world a better place for independent retailers.

We influence public debate, we monitor and shape new legislation through the Legal and Parliamentary Affairs Committee, keeping bira members ahead of the curve.

We work hard to assist Government in its information-gathering activities as the leading specialist representative body for independent retailers.

We regularly survey members to take the temperature of trade and highlight issues impacting independent profitability. This provides the basis for influencing opinion on the hugely important subject of the value of these retailers to our nation's towns and cities.

We regularly appear in local, national and trade press, radio and TV fighting for the rights of independent retailers and giving our members a voice.

To learn more visit bira.co.uk

Contact

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the voice of independent retailers