The rating revaluation race is on

What do ratepayers need to be aware of in the run-up to the revaluation?

ON RATING

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The valuation date for the 2017 business rates revaluations in England and Wales has now been set as 1 April 2015. The Rating Lists (Valuation Date) (England) Order (SI 2014 No 2841) came into force on 21 November 2014 and The Rating Lists (Valuation Date) (Wales) Order (SI 2014 No 2917) came into force on 1 December, effectively firing the starting gun for the 2017 business rates revaluation in these two countries. The Scottish government is expected to carry out a business rates revaluation at the same time.

Background to the revaluation

Since the current business rates regime was introduced in 1990, business rates revaluations have been given a set, antecedent, valuation date. This is the date by reference to which values are to be set. The date has normally been two years in advance of the date on which the valuations are to come into force so as to allow time to gather evidence of rents and values and to prepare valuations. The current rating lists, which came into force on 1 April 2010, are based on a valuation date of 1 April 2008.

There was due to have been a business rates revaluation in 2015, which was expected to have had a valuation date of 1 April 2013. However, this revaluation was postponed by ministers in England under legislation contained in the Growth and Infrastructure Act 2013. Ministers in Wales and Scotland subsequently postponed their revaluations, although Northern Ireland is going ahead with a 2015 business rates revaluation and new rateable values there have just been published: http://draftvalues.dfpni.gov.uk/Home.aspx.

The postponement of the revaluation in England was for a two-year period, until 1 April 2017. At the time, there was considerable criticism of the postponement because this left rateable values based on a date in 2008 when economic circumstances were very different to those now.

Effect of the revaluation

Assuming that the revaluation goes ahead as planned (the general election may inevitably have a bearing) these orders mean that new rating lists will come into force on 1 April 2017 based on rental values at 1 April 2015. Existing rateable values will remain in force until then.

The first practical consequence for ratepayers is that they are likely to see an increase in the issue of "forms of return" from the Valuation Office Agency (VOA) seeking tenure, and other details, of their properties. This is because rents agreed now and over the next few months are likely to provide strong evidence for the new level of rateable values to come into force in 2017. This should be borne in mind by anybody involved in agreeing rents, whether at rent reviews, new lettings, or lease renewals, over the next few months. Rental values agreed now are likely to translate into rateable values in 2017, and to set the occupier's level of rates liability for five years after that.

A second consequence for ratepayers is that forecasting rate liabilities beyond 1 April 2017 becomes very difficult. Normally, business rates liabilities increase annually in line with retail prices index inflation. However, in a revaluation year, everything changes: new rateable values come into force; a new level of uniform business rate (UBR) is set; and a new scheme of "transitional adjustments" (the phasing-in of new levels of rate liability) comes into force.

Ratepayers may expect many rateable values to fall in 2017, because of the fall in rental values in many parts of the country since 2008 as a result of the recession. But it is important to remember that rate liabilities will not change in exactly the same way as rateable values. This is, first, because the legislation not merely allows the government to increase the UBR multiplier to offset any overall fall in rateable values so as to maintain the aggregate yield from the tax, but actually requires it to do so. The second reason why rate liabilities may not move in line with rateable values in 2017 is because transitional adjustments may mean that reduced or increased liabilities are phased in over a number of years.

There is a strong expectation that the revaluation will reduce rate liabilities for many businesses and this may well be the case. But it is important to remember that the aggregate yield will not reduce, unless the government of the time takes some other action, and for every pound less paid by one business somewhere, there will be another paying a pound more. Some parts of the country, particularly central London, could see a "double whammy" of increased rateable values and an increased UBR multiplier.

The advice to ratepayers must be to consider very carefully rents agreed now and over the next few months, and to be careful about budgeting for rate liabilities from 2017 onwards. There will be more about the revaluation impact in future columns.

The task ahead

The revaluation will reflect economic and rental values at the valuation date (1 April 2015) and the physical circumstances at the date the values are to come into force, which is 1 April 2017. The valuations will be carried out by the VOA between now and then and are expected to be published to ratepayers on the VOA website at the end of September 2016. Between now and then the VOA will have to value some 1.8m non-domestic properties ranging from Heathrow Airport to lock-up garages.

The total rateable value of properties appearing in local rating lists in England is more than £57bn, so the exercise is a massive one for the VOA and comes at a time when some significant changes are taking place to the VOA's office network. The VOA currently has more than 60 offices in England and Wales and plans to reduce this network to about 25 offices by 2019; a major restructuring. The first phases of this change will take place at the time that the new rating lists are being prepared. It will be a test for the VOA to ensure that these valuations reflect changing circumstances locally at a time that it is reducing its local office presence – will "homeworking" work?

Ratepayers should consider very carefully rents agreed over the next few months

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