Same old blues

Despite the proposals on reform, substantive changes are likely to be thin on the ground

BUSINESS RATES REFORM

Blake Penfold

The system suffers from high levels of tax and an excessively complex business rates system

None of the proposals appear likely to address these fundamental problems

With the dust starting to settle on the general election result, what are the prospects for change to the business rates system? There were indicators of possible changes in the Conservative manifesto and there is now a new team at the Department for Communities and Local Government as well as proposals from the Queen's Speech.

The manifesto promised increased powers for local authorities to retain business rates in selected areas. It also promised a major review of business rates and, bizarrely, rates relief for local newspapers. The "major review" was a reference to the review launched in the final budget of the previous administration.

The new team at DCLG suggests continuity of policy but with some new faces. Greg Clark has become secretary of state in place of Eric Pickles. He was a driver behind the localism agenda of the previous administration and evidence so far suggests a further impetus to localism from the new government. Mark Francois is responsible for the overview of local government policy, in place in Brandon Lewis, who remains within DCLG, with the detailed policy for local government and local government finance being the responsibility of Marcus Jones.

The Queen's Speech included proposals for changes to the business rates system to be contained in legislation during the coming parliament. The reforms are to be enacted by both the proposed Cities and Local Government Devolution Bill and the proposed Enterprise Bill. However, none of the proposals for these bills appear likely to address the fundamental problems of the business rates system, which are a very high level of tax in relation to other corporate taxes and in relation to property taxes in other countries, and an excessively complex business rates system.

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Cities & Local Government Devolution Bill

The Cities and Local Government Devolution Bill was published at the end of May and has already been introduced into the House of Lords. It gives the secretary of state power to designate combined authorities (that is to say areas covering more than one local authority) where there is to be an elected mayor. The bill also provides powers for elected mayors to make rates precepts across the areas that they are responsible for. There are five combined authorities: Greater Manchester; Sheffield and surrounds; Merseyside; the North East cities including Durham, Gateshead, Newcastle and Sunderland; and West Yorkshire. The purposes of the bill include "fulfilling the government's commitments on devolving powers and budgets to boost local growth in England". The notes to the bill make clear that it does not expect overall local government expenditure to increase as a result of an elected mayor.

I also expect to see powers to increase business rates retention (the amount of new business rates income actually retained by a local authority from its area) from 50% to 100% in selected locations, probably including these combined authorities. This would accelerate the localism agenda of the previous administration. An increase in local business rates retention is another reason why it is hard to see the new government's Queen's Speech proposals addressing the problem of very high business rates.

Enterprise Bill

The other piece of new legislation set out in the Queen's Speech that is likely to affect the business rates regime is the proposed Enterprise Bill, which will include:
- introduction of business rates appeals reform, including modifying the Valuation Tribunal powers to consider ratepayer appeals
- allow for the Valuation Office Agency to share information with local government to improve the system for both local government and ratepayers.

The government states that one of the main benefits of this bill will be "improving the business rates system ahead of the 2017 revaluation, including by modernising the appeals system". This reflects the Conservative manifesto commitment to carry through both the Business Rates Administration Review and the Business Rates Structural Review. The latter review now includes the consultation on "Checking and challenging rateable value" (*EG*, 8 March 2014). Any hope that these reviews will address the problem of the very high level of business rates is effectively nullified by the requirement for any outcome of the reviews to be fiscally neutral, that is to say, the total amount of tax raised must remain the same.

The Enterprise Bill will not be published until October and we will have to wait to see what it says in order to assess its significance, but the very limited detail in the Queen's Speech suggests that there will be no fundamental reform of the business rates system other than, perhaps, in the area of appeals.

The changes I expect to see to the appeals regime are the introduction of an informal means of checking rateable values, without a requirement to make a proposal to alter the rating list, and a substantial "raising of the bar", in terms of evidence and possibly also by charges, for those who do want to make a formal challenge. The removal of the automatic link between proposals and appeals would be a welcome change as only a minority of cases are actually "appeals" in the sense of requiring a hearing. But the imposition of a greater burden of proof on the ratepayer could be unfair on taxpayers, particularly those smaller businesses that may not be able to afford professional advice.

Real reform?

While the Queen's Speech and other announcements contain only an outline of the government's proposed legislation, those who were hoping for real reform of the business rates system are likely to find that outline a disappointing one.

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