Another day, another review

Potential and missed opportunity in the latest paper on business rates administration

Even before the dust has settled on the *Checking and Challenging Rateable Value* consultation (*EG*, 8 March 2014, p106) another government review relating to business rates has been published. In the Autumn Statement last year the chancellor promised a review setting out "options for longer term reform to business rates administration which maintain the aggregate tax yield". The terms of reference for the review were published on 13 February. Normally this would be followed by a consultation paper, but in this case, a discussion paper ("the paper") seeking views from stakeholders on a series of detailed questions, has been published.

The terms of reference restrict any potential changes coming from this review. They include a requirement that the aggregate yield from the tax must be maintained and that incentives to local authorities from the business rates retention scheme must also be retained. These limitations will make it a considerable challenge for the review to result in any significant change in rates liability for most ratepayers.

The devil is in the detail...

The paper seeks views on: how and how often property is valued; how rates bills are set; how business rates are collected (including backdating); and how information about ratepayers and business rates is used.

The questions about how property is valued set out possible alternatives to the current system of an individual valuation for each property. The paper looks at banding values; applying a system of geographical zones of value for different uses; indexing values; and carrying out rolling revaluations – which would involve valuation of either classes of property or geographical areas separately from one another. These rather blunt processes carry with them elements of "rough justice" when compared with the present system of individual property values. While ratepayers might be prepared to accept a broad-brush approach to valuations if the tax rate is relatively low, it seems unlikely that, with the uniform business rate now close to 50p (ie 50% of rateable value), ratepayers would accept such crude valuation approaches.

The questions on how often property is valued canvass views on annual, two-yearly, or three-yearly revaluations instead of the normal five-year revaluation cycle.

ON RATING

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This will no doubt reignite the debate about the government's postponement of the 2015 revaluation until 2017. However, the paper makes clear that any changes will only come after 2017. Other countries revalue for local property taxes more frequently than the UK. However, their tax rates are generally lower, meaning that volatility between revaluations is less important. It will be interesting to see if ratepayers are prepared to support more frequent revaluations.

There is a series of questions focusing on how rates bills are set. These look at the application of rates reliefs and how clearly these are explained to ratepayers and set out on rate bills. The terms of reference for the review make it clear that it will not look at what reliefs are granted or the amount of those reliefs; it is simply interested in how clearly these are explained and understood. This is an opportunity missed as the system suffers from a complex plethora of supplements, reliefs and exemptions which are inconsistently applied and are not clearly understood by ratepayers. One of the principles set out in the paper is that the review should make business rates "simpler to understand and easier to comply with". However, if the present mess of supplements, reliefs and exemptions is outside the scope of the review, it is difficult to see how any significant improvement will result.

The questions relating to how business rates are collected look principally at the billing process, and at how demands are calculated and served. This is a welcome area of review as there is considerable scope for improvement. There are examples of very good and clearly laid out rate bills issued by some authorities, yet others fail to comply even with the minimum information required by law. I hope that best practice will prevail and that an agreed common format for rate bills will come out of the review. This would enable real progress to be made towards electronic billing. The paper also canvases the possibility of requiring ratepayers to return information on property alterations. Given that owners or occupiers making alterations already have to comply with planning, building control, environmental health and possibly licensing requirements, it seems a ridiculous burden to add yet another level of compliance. I hope that the review will encourage better use of existing information to identify changes rather than introduce new requirements.

The final set of questions relates to how information about ratepayers and business rates is used and concentrates particularly on information provided to the Valuation Office Agency (VOA) by ratepayers and information provided by the VOA on its website. The information provided on the VOA website has been a welcome advance in recent years. I hope that the outcome of the review will result in the VOA providing clearer information to ratepayers about the evidence on which its rateable values are based.

...but does it go far enough?

The review looks at some important areas that can certainly be improved on. However, its terms of reference mean that it ignores two significant matters. First, at close to 50%, business rates are currently the highest level of corporate tax in the UK and local property taxes are a significantly heavier burden than in other EU countries. Secondly, for most of business rates' long history the UK economy has been firmly based in real property – which is what is taxed by business rates. However, over recent years, the growth of e-commerce has meant that real property represents a declining proportion of overall economic activity. Despite this, the structure of business rates means that the yield from the tax increases year-on-year in money terms and, between revaluations, remains the same in real terms. At some point this structural problem with the tax will require review in order to set the rate at a level that represents the significance of real property to the overall UK economy. The current review is not it.

The paper is available at www.gov.uk/government/publications/business-rates-administration-review-discussion-paper and closes on 6 June.

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