The Case for Business Rates

and

Council Tax Reform

May 2012

Whether the Office for Notional(*sic*) Statistics is correct in its assertion that the UK has fallen back into recession or not, what is certain is that; our Banks are constrained from lending by compliance with the draconian Basle III capital adequacy regulations; our businesses are too nervous to invest the £754 billion cash reserves that Ernst & Young report they have accumulated; and our consumers lack the confidence to spend beyond their basic needs.

In addition to the modest Corporation Tax and Capital Gains Tax reductions,
the coalition government has introduced a number of initiatives to stimulate business growth including the Green Investment Bank, the Enterprise Guarantee and the Enterprise Capital Funds Schemes, the Regional Growth Fund and the Red Tape Challenge, with a total budget spend on these measures circa £3.6/4 billion, spread over the next three or four years.

The problem with all these well meaning schemes is that; they take too much time to implement; rarely reach their targeted audience quickly or widely enough; and absorb too much of their capital allocation in implementation costs. Furthermore, if the Office of Notional(*sic*) Statistics is correct, they are not working.

So what simple, effective measure can be taken, which, at a stroke of the Chancellor's pen, will have the immediate impact of a blood transfusion into the arteries of the Nation's hard-pressed business sector?

The answer is the cancellation of the 2010 Business Premises Valuation. For most businesses, rates are their third highest fixed cost, after salaries and rents.

The April 2010 revaluation was based on rental value evidence as at April 2008, benefitting from the high point of the commercial property market cycle a year or so prior. By the time the increase came into effect two years later, both the economy and the property markets were in a very different place. Rental values had crashed by 30% or more, and fell further in 2011. Business Rates are now so excessive that further rent decline is occurring simply to subsidise the unrealistically high rates a business must pay. Ingoing Tenants are demanding additional rent concessions from Landlords to off-set the onerous rates liability.

Business Rates have now become a major inhibitor to economic recovery. In 2005/6, total revenue raised from business rates was circa £19.9 billion, providing some 4.35% of total UK tax revenues. Whilst no figures seem yet available for the 2010/2011 revenues, they are likely to have been not less than £25 billion, so a rebase back to 2005 values would cost some £5 billion per annum.

Although the ineffective stimulus measures announced to date have a total reported cost circa £3.64 billion, in reality, the Government has probably so far spent much less than £1 billion on these schemes.

In a reversal of the Thatcher Administration's Local Government Finance Act 1988, the coalition has sensibly decreed that business rates, previously collected by Local Authorities and remitted to Government to pool and redistribute, will again be retained by the LAs, with discretion to spend locally as they determine.

In part mitigation of the revenue reduction a 2005 rebase would cause, and in the interests of sensible reforms to help the struggling High Streets, the following measures could be taken:-

1. Out-of-town retail parks, factory outlets and food stores should be excluded from the 2005 value rebase, to assist the recovery of High Street and Town Centre businesses.

2. Customer car parking at the out-of-town retail parks, factory outlets and supermarkets, presently exempt from business rates, should be assessed, thereby correcting an unfair anomaly. Town centre on-site car customer parking has always been included in rateable value assessments.

3. Empty Property Rates, presently levied at a disgraceful and unjustifiable 100%, should be reduced to 25%. No sensible Landlord keeps a property empty for one minute more than necessary, whatever the EPR may be.

4. Council Tax Bands on domestic property should be reformed. This is long overdue, the bands still being as originally set in 1991. Presently, in England there are 8 Bands - from A (for properties up to £40,000) to H (for properties over £320,000).

The national average annual council tax charge for the top Band H in 2008 was £2,536 - whether the house had a value over £320,000, £3.2 million, or £32 million.

According to the Halifax Index, over the last twenty years house prices have more than tripled, increasing by an average 306%, whilst Council Tax Bands have remained unchanged.

The Bands should be rebased to accord with current house values, with the top Band applicable to properties with a value over £2 million. The required correction could be phased in over a two/three year period, to help householders adjust. Since 1993, all house sale prices have been in the public domain and recorded at the Land Registry. Since most houses are similar to their neighbours, three or four transactions will give a tone of value to a street. Allowing an appeal process for aggrieved householders, the Band value rebase can be swiftly and cheaply implemented.

At present, the business sector is subsidising the domestic sector, paying a third or so more than is fair, whilst the domestic sector is probably paying half the appropriate amount.

The overwhelming argument in favour of rateable value assessments being rebased to 2005 values, is that the next business rates revaluation will be based on April 2013 rental evidence, and implemented in April 2015.

Assuming commercial property rental values remain weak next year, businesses will have ample evidence to challenge excessive rating assessments in 2015. The Valuation Office Agency will then be absolutely overwhelmed by the number of appeals that will be lodged to reduce the present swingeing assessments, dwarfing the current backlog of some 328,000 rate appeals, with which the VOA is currently struggling.

Rebasing to April 2005 rateable values now, back-dated to April this year, will have the following effects:-

1. Rapidly introduce some £5 billion of liquidity across the entire business sector in the current fiscal year, benefiting the bottom line now.
2. Remove the necessity for most of the Rating Appeals currently lodged, thereby freeing up the VOA to introduce the new Council Tax Bands, which should apply from April 2013.
3. Rebalance the commercial and domestic property tax systems in fairer proportions for both communities.

4. A balanced property tax structure would allow for a rethink on the myopically excessive Stamp Duty. This should be steadily revised downwards over the next few years to the 1-2% levy which applied under the last Conservative Government. At that level both commercial property investors and house buyers will see little point in expensive tax avoidance schemes, although Stamp Duty should apply in full to corporate house purchases. What the Chancellor failed to understand in the introduction of Stamp Duty penalties on corporate house purchase, is that foreign buyers require incorporation for anonymity, not for Stamp Duty avoidance. Can we really afford to discourage such investment in our economy at this time?

Hard on the householders? Well, Council tax bands have remained unchanged in England for over twenty years, whilst home owners have seen their houses more than treble in value over the same period. Should a £2 million house owner be paying only £50 per week for all the services the Local Authority provides?

Chancellors of the Exchequer should always have it in mind that where tax rates are considered fair, the taxpayer will pay up, but where they are thought unfair, the taxpayer will seek to avoid and even evade.

As Colbert, Louis X1V's brilliant Finance Minister, so neatly phrased it, *"The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing"!* Although he overlooked the alternative income to be derived from the bird, presumably because Aesop's goose was Greek.

If the country is to fight its way out of recession, it will be the business community that will lead the way. What is required from Government is a regulatory framework that will help and not hinder our entrepreneurs and wealth creators in achieving that goal, to the benefit of us all.

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