ICAEW
REPRESENTATION 22/25

TRANSFORMING BUSINESS RATES

Issued 3 March 2025

ICAEW welcomes the opportunity to comment on the discussion document, 'Transforming Business Rates' published by HM Treasury on 30 October 2024, a copy of which is available from this link.

- We believe that the government needs to be more ambitious if business rates reform is to have the desired impacts of incentivising investment and growth and improving fairness within the system.
- We would welcome the inclusion of business rates into a wider business tax road map which takes a more holistic view of the whole range of taxes and rates that businesses need to pay or administer than the current corporate tax road map.
- We support the proposal to move to yearly valuations, provided this is supported by adequate resource and more use is made of information already made available to the VOA and other parts of government.
- Certainty for rates payers and compliance would be improved by simplifying rates calculations and better publicising of reliefs and liabilities.

This response of 3 March 2025 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 170,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

ICAEW
Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

KEY POINTS

1. We believe that the government needs to be more ambitious if business rates reform is to have the desired impact of incentivising investment and growth and improving fairness within the system. We have set out ideas in this consultation response where we believe that the government could go further than the proposals set out in the discussion paper.
2. From the perspective of incentivising investment and growth, business rates need to be looked at as part of an overall review of the whole business tax landscape and the incentives that government can provide to support investment in business.
3. The government needs to consider the fiscal resources it needs at a central and local level to meet the demands placed on it while also ensuring that the taxation burden on business is distributed in a way that is both fair and encourages the form of behaviour and activity the government wishes to promote.
4. To that end, we would welcome an extension of the government's corporate tax roadmap to encompass all the taxes and duties that businesses incur or administer, including business rates. Greater collaboration with the devolved administrations in Wales, Scotland and Northern Ireland would also help the UK government and those administrations to learn from each other in reforming business rates.
5. Feedback from our members suggests that improvement relief as currently formed is having relatively little impact in encouraging investment and growth. We suggest ways to enhance the relief in our comments below, such as an exemption for all new qualifying plant from increasing the rateable value of chargeable properties.
6. We believe that empty property relief should apply for a longer period (at least 9 – 12 months) which should at least partially remove the incentive for landlords to abuse the occupation period test. This could have a negative impact on local and government finances, but this could be countered by measures, such as rates-breaks, that support tenants to take on new leases when it would otherwise be financially prohibitive to do so.
7. The biggest impact on preventing abuse of this test would be achieved through requiring meaningful commercial activity in the property concerned during that period.
8. Feedback we have received from members suggests that there are inherent limitations in using valuations of individual properties to determine business rate liabilities, though those limitations could be tackled by moving closer to the WOZ system used in the Netherlands.
9. Consideration should also be given to other methods of calculating liabilities. We have set out some options in the section headed 'more fundamental reform'.
10. Our members would appreciate more transparency and certainty in relation to their business rates liabilities and those of their clients. This could come primarily from:
    - increased publicity and advertising of available reliefs and exemptions so that businesses make the best possible use of them, for example by including details in any related communications from local authorities to businesses (eg during planning applications);
    - setting multipliers and transitional reliefs well in advance and maintaining them for at least several years at a time;
    - reforming reliefs so that they do not disappear entirely because of exceeding size and property valuation limits or taking on new property leases; and
    - simplifying the rates system so it is easier to understand and business can forecast their rates liabilities more accurately.

SPECIFIC AREAS FOR REFORM

Incentivising investment and growth

Improvement relief

11. Some of our members have seen the introduction of improvement relief as a positive step in incentivising investment, but others anticipate that it will have relatively little impact on business decision making. Tenants are often unable to make significant changes to the properties they occupy, and landlords will tend to make decisions around extensions and improvements regardless of the impact on rates.
12. Other members have also commented that the single year nature of the relief limits its impact on decision making.
13. To claim improvement relief, the party making the expenditure must have occupied the property during and after the improvement works. Therefore, if a landlord makes improvements prior to leasing the property to an incoming tenant, the landlord will not be able to claim the relief because it is the upcoming tenant who will be paying the business rates. The relief would have more impact if the tenant could claim it and agree with the landlord to adjust the lease terms to reflect the benefit of the relief received by the tenant.
14. If the incoming tenant makes the expenditure, it typically evaluates the cost/benefit of carrying out the improvement works over the course of its leasehold interest. Hence, if the relief applied for a longer period, for example until the next lease renewal date, this would have a more significant impact on decision making, albeit that would come at a cost to the Exchequer or local government finances.
15. As a compromise, the government could introduce an exemption from business rates on the value of any new plant and machinery installed in premises that increase their rateable value. This could be further limited by restricting the exemption to particular categories of plant, such as green technology. This was an idea previously raised in our 'maintain, demolish, rebuild or refurbish?' discussion document.
16. In addition, if local authorities and HM Treasury did more to publicise the existence of improvement relief, this would be more likely to factor into investment decisions. We therefore suggest that the different parts of government work more synergistically so that information is disseminated to those businesses that most need to hear it. For example, if a business submits a planning application, the acknowledgement of receipt and/or confirmation of approval should include details on the potential impact on business rates of the proposed works.

Transparency and certainty

17. Businesses would be able to make investment decisions about improvements and new tenancies with more confidence if they had more certainty over the rates they would be paying over the lifetime of a tenancy.
18. For example, it would help if local councils provided more information about the associated rates liability before a business enters into a new lease.
19. HM Treasury could also introduce policies to ensure that rates do not increase substantially, or are easily forecastable, at least over the medium term. These could include:
    - committing to keep business rates multipliers frozen over a period of at least three to five years, rather than increasing with inflation;
    - simplifying transitional relief. This is notoriously complex and makes it extremely difficult for businesses to calculate their rates liabilities from year to year;

- requiring local authorities to include detailed calculations on business rates bills to show how and why rates liabilities changed compared to the previous year;
- giving local authorities greater discretion to offer additional reliefs where they see a particular economic need in their area; and
- reforming small business relief and other reliefs so that cliff edges are removed such that investment decisions do not have such a dramatic effect on rates liabilities.

20. Our members would also appreciate more transparency around how valuations are carried out by the Valuation Office Agency (VOA) as this might help them anticipate how the rateable values of their properties will change from one valuation to the next and plan accordingly.

Other possible measures

21. Many of our members and their clients are expecting to struggle financially in the next few years, partly because of the employment-related changes introduced in the Autumn Budget 2024, including increases to the national minimum wage and employer’s national insurance contributions. These changes have contributed to a sharp contraction in business sentiment, as noted in the latest edition of ICAEW’s business confidence monitor. Confidence has declined in all sectors, with the Retail & Wholesale, Property and Transport & Storage sectors all dipping into negative territory.
22. What this evidence shows is that the government needs to take a holistic view to the impact of business taxes and duties on growth and investment. An incentive in one area can be counteracted by additional liabilities and burdens in other areas. We would welcome an extension of the government’s corporate tax roadmap to encompass other taxes and duties that business incur or administer.
23. Many of our members in business indicated that they would appreciate an overall reduction in business rates liabilities to help them cope with the rise in other taxes. Although the impact of the COVID pandemic has depressed rateable values in some sectors, rates are a fixed cost to business and if they have lower profits to pay them out of, that could put the future of such businesses into doubt.
24. We appreciate that finances at both a central and local government level are tight and that it is probably not realistic to offer an across-the-board reduction in rates. We have therefore considered ways in which reliefs could be targeted at those who need it the most.
25. Reforms the government could consider include:
    - exempting businesses from additional rates liabilities if they take on an additional property below a specific rateable value;
    - providing a rates-break, similar to rent-breaks provided by landlords to avoid businesses paying rates on two properties while they are relocating to new premises, and for a period thereafter while operations are being brought up to speed; and
    - reducing the percentages by which rates liabilities can increase year-on-year under transitional relief.

Tackling avoidance and evasion

Empty property relief

26. The feedback we have received from members is that the increase in the reset period from six to 13 weeks is unlikely to have much impact on the level of abuse of empty property relief. This change fails to tackle situations where landlords arrange for minimal reoccupation of a property and then claim a further period of relief.
27. We recommend that this relief is reformed so that a more substantial form of occupation is required for the reset period to be effective. We appreciate that this might require an

objective assessment of whether a particular arrangement satisfies a more substantive occupation test, but any anti-avoidance measure is only effective if it is policed effectively.

28. Additionally, the relief could be extended for a period beyond three months. If an existing tenancy suddenly comes to an end, it can often take nine to 12 months for the property to become reoccupied after a period of advertisement and refitting to meet the requirements of the new tenant, during which time the landlord is paying a liability without the corresponding income stream to fund it.

Other measures

29. We believe that more consistent compliance with the rates system would be achieved if the system were to be simplified so that it was easier for businesses to estimate and therefore budget for their liabilities in advance. We have set out suggestions for simplification of the business rates system in the section headed ‘transparency and certainty’.

30. We support the introduction of a general anti-avoidance rule, although further work would be needed to consider how this would be applied in practice. Would local authorities have the power to assess the conduct of businesses and adjust rates bills in accordance with the behaviour they would have expected? If not, who else would police the system? We would be delighted to explore this in more detail as part of a further consultation.

Making the system fairer and more responsive

The valuations process

31. We agree that more frequent valuations would ensure that rates liabilities are based on more contemporaneous data. However, we believe that reform of valuations administrations will be required to make this a reality and ensure that adjustments to liabilities happen on a close-to real-time basis, taking local economic and trading conditions into account.

32. One possible way to achieve this could be by delegating the valuation process to local (or regional) authorities who have more detailed knowledge of the local environment and conditions they are basing their valuations on. This is the basis of the WOZ system in the Netherlands in which valuations are carried out by local municipalities.

33. The WOZ system provides for greater transparency as the valuation of every property is available to view on a public website. By providing this level of transparency, businesses would be in a better position to compare valuations of similar properties nearby and assess whether an appeal against the valuation of their own properties would be appropriate.

34. We note that it currently takes up to a year to complete the appeals process for a valuation, which means that businesses experience a period of uncertainty while they wait for their application to be processed. This indicates either that the VOA is struggling with a lack of resources or there are far too many inaccurate valuations. Moving valuations to local or regional centres, supported by central VOA resource, could help to relieve this problem by ensuring that valuations are more accurate and that more resources are devoted to it.

The appeals process

35. We also believe that if the valuation of a property is amended following appeal and that amendment is a result of factors applicable to multiple properties in the same area (eg local trading conditions), this should be reflected in the valuations for other properties that are similarly affected by the factors adjusted for as a result of the appeal.

36. By way of an example, let’s say that a key anchor tenant is lost in a shopping centre which then has a negative impact on the valuation of the other units in the centre. If the occupants of only one of those units appeals the valuation and the appeal is successful, that one unit

holder will benefit from an unfair advantage compared to the other unit occupiers, unless the other occupiers also make an appeal. Ideally, the appeals process would ensure that valuations of other properties are also adjusted for factors uncovered during that process.

Moving the antecedent date

37. We support shortening the period between the date to which a valuation relates and the date it comes into force as this should ensure that valuations used to calculate business rates liabilities are more contemporaneous.
38. However, we believe that the government could do more to use information it already holds about changes to properties, such as those submitted to the land registry. This could also be used to prompt rates payers to make their own notifications about changes to the property.

Other changes to promote fairness

39. We support a review of cliff edges in the system, with a view to removing them so that rates do not immediately increase, or reliefs entirely disappear, because of a business crossing a particular threshold. For example, the small business multiplier applies to the total value of any property with a rateable value below £51,000. Similarly, the standard multiplier applies to properties with a rateable value above that threshold. If the standard multiplier only applied to the extent that the rateable value exceeds that threshold (the so-called ‘slice’ basis) this would smooth the effect of a property exceeding this threshold for the first time. The same principle could apply to the proposed higher multiplier for properties with a rateable value of £500,000 and above.
40. In addition, we believe that the government should go further in digitisation of the business rates system. We welcome the announcement in the discussion paper that the digitising business rates programme will be delivered by March 2028, but we believe that the government’s ambitions with this programme should go further. As well as joining up the information that HMRC and VOA holds about businesses, it could also be used as a way to make greater use of data that is already held in other branches of government. For example, notifications made to the land registry could prompt local authorities to investigate whether property improvements have taken place or properties have been bought or sold.

More fundamental reform

41. If HM Treasury is open to considering more fundamental reform of business rates, it might choose to look beyond the current valuations-based systems of calculating liabilities. The limitations of the current system include:
    - the cost to the government of revaluing millions of properties every three years (or potentially more frequently);
    - the slow and convoluted process involved in appealing a valuation;
    - complexity and lack of transparency over rates liability calculations, making it hard for businesses to make plans based on cost forecasts over the medium to long term;
    - the fact that ability to pay is not directly linked to the value of the property occupied;
    - the impact of external events on valuations, meaning that business costs rise as a direct result of local economic conditions;
    - the disincentive to bring underused or derelict land into productive use; and
    - the failure of the rates system to reward sustainable or environmentally-friendly behaviour.
42. Based on our ten tenets for a better tax system, as set out in Appendix 1, we believe that the ideal rates system would have the following characteristics:

1. Certain: Businesses should know what their liabilities will be at least five years ahead, so they can plan accordingly. This comes both through being able to estimate their liabilities and having those liabilities communicated clearly by the relevant local authority.
2. Simple: Businesses should be able to easily see how their rates are calculated to increase trust and transparency in the system.
3. Easy to collect: Local authorities should make it administratively easy for businesses to pay their rates.
4. Properly targeted: Any reliefs or anti-avoidance measures should be clearly based around the incentive or behaviour they are designed to elicit.

43. To this, we also add that the rates system could be used to help drive growth and provide incentives for investment.

44. Our members have provided us with ideas about alternative methods of rates calculation. These include calculating rates based on the floor space of the building (eg, per sq/m) or a consumption model based on the amount of energy consumed or the amount of waste created by the business occupying the property.

45. We acknowledge that none of these options fully meet all the tenets we have set out above. We also acknowledge the challenge created by having different rates systems in each of the nations of the UK which makes any fundamental reform more difficult to implement. However, we believe that the government needs to show more ambition in its plans to reform business rates and learn from the experience of the devolved administrations across the UK.

46. We would be happy to discuss these and other ideas with you in more detail.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see https://goo.gl/x6UjJ5).