Briefing - Business Rates, Business Taxation and Digital tax

The BRC position

- A tax system skewed towards people and property is contributing to store closures and job losses, and stalling the successful reinvention of high streets
- The recent losses of more well-known high street retailers, Company Voluntary Arrangements (CVAs), store closures and job losses should sharpen the focus on the current pressures on retailers
- It's a critical period for the industry, caused by a perfect storm of pressures including rising costs and new technology changing how people shop
- Retailers make a huge contribution to the economy by providing local employment and are often the largest employers in many towns across the UK. Key statistics relating to the industry are set out at **Annex 1**
- Online sales continue to grow, driven by innovation and consumer demand and there is more retail space than there is demand for it so there will be fewer stores in the future
- Seeing online and stores as two separate channels will become irrelevant and the roles of stores in the future will continue to evolve
- But the successful transformation of places, with ongoing investment by retailers and others requires the business rates burden to fall
- Without change it is the very communities already more vulnerable with high levels of deprivation that face the most serious challenges
- The business rates system is outdated, unfair and not related to the ability to pay
- The property tax burden in the UK is a higher proportion of business taxes overall than in other developed countries
- Corporation tax has fallen from 28% to 19% since 2010 whereas inflation linked business rates have risen. Details of the retail tax contribution are set out at **Annex 2**
- Business rates need to be substantially reduced, and that funding gap filled by other taxes
- We need a taxation system that is more equitable and distributes taxes more evenly across the economy, fit for the 21st century. The principles that should underpin the revised tax system are set out at **Annex 3**
- This should include looking at how corporation tax should work in a global digital economy to capture more untaxed profits and exploring increasing the UK rate of corporation tax
- Anything new will take many years to implement. Action is needed now, and so the BRC welcomed the Chancellor's reduction in business rates for retail properties with a rateable value lower than £51,000.
- However, this does not help the larger businesses that employ the majority of the UK's 3.1 million retail workers
- This reduction also is a short term relief; business taxation needs a more sustainable structure fit for the long term

Online taxes/delivery taxes

- A tax system skewed towards people and property is contributing to store closures
- Against the backdrop of an overtaxed industry it is understandable that there is a debate about whether to redistribute the existing burden within the industry
- However, a new online or sales tax is not the answer
- The Government set out its view in position papers at the Autumn Budget 2017 and Spring Statement 2018 that the current corporate international tax framework does not reflect the value that users create for certain kinds of digital businesses and that ultimately this poses risks to the sustainability and fairness of that framework and it wanted to address that challenge, and that this work should be led by the OECD
- We agree that this should form part of the wider review of business taxation
- However, until international reform can be achieved, we oppose any and all taxes that give rise to an additional tax burden on the supply of goods to consumers, for example, a tax on online sales or the delivery of products as a result
- It is short-sighted to consider different forms of business taxation in isolation from one another. Activities or assets are taxed, not individual companies or particular industries, and therefore it is not possible to consider taxing retail in isolation to other industries
- Such additional taxes would do nothing to address the current challenges faced in local communities across the country or to further consumer interests, not least as eight of the top ten online retailers by sales are also on the high street, and for every £5 spent with retailers, nearly £1 is spent online, more than half of which is with retailers that also have shops

Digital Services Tax

- In the Autumn Budget 2018 the Government announced that it would introduce a 'Digital Services Tax' (DST) as an interim measure to address the issue of taxing companies on the profits derived from economic activity in the UK, pending international consensus over how best to ensure fair taxation of the creation of value online
- The DST will amount to 2% of the UK revenues of digital business that derive value from users' interaction with web services such as social media platforms, search engines or online marketplaces
- The BRC does not take a view on the taxation of services provided through platforms as it does not relate to the retailing of goods to consumers
  The BRC therefore do not take a view on the proposed DST, as long as it remains limited to the scope set out by the government in its consultation paper
- However, if the scope of the tax were to be extended to create additional burdens in relation to the retailing of goods (whether sales or delivery), this would be opposed by the BRC

Offsetting online taxes with business rates reductions

- Taxes apply to all businesses so the answer to the business rates problem is not another tax solely on the retail industry

- Business rates cannot be reduced for retailers alone without falling foul of state aid rules
- Government needs to reduce the business rates burden urgently and create a tax system which is fit for the 21st century which more fairly distributes taxes ***right across the economy***

Annex 1: key statistics (source: BRC)

- 3,200 fewer stores than there were 3 years ago
- Store sales down 2.5% in last 12 months and business rates up 3%
- Online sales were 2.8% of total retail sales in 2006 and were 17.8% in 2017
- Retail industry net profitability fallen from 4% net margin to 2.5% over last 5 years
- Retailers pay £2.31 in business rates for every £1 in corporation tax
- The industry represents approximately 5% of the economy (GVA) and pays approximately 10% of business taxation (which includes around 25% of the business rates bill)
- Property based taxes are 4% of all taxes in the UK (the second highest in the OECD) compared to 1% in France and Germany

Annex 2: the retail tax contribution (source: BRC estimates)

Tax Contribution of UK retail industry 2016-17 (£bn)	Retail (£bn)	UK (£bn)	Retail as % UK
Corporation Tax	3.8	49.3	8%
Business Rates	7.1	29.7	24%
Employer NICS	4.4	74.0	6%
Other	2.1		
Total	17.4		
est. VAT generated through sales of goods	46.1	119.8	38%
GVA	95.7	1,768.1	5%

Annex 3: vision for business taxation – principles

Since 2015 the BRC has recommended that Government publish a vision for business taxation which would include as one component the role and structure of business rates. We believe a review should be comprehensive in scope, and as a starting point have identified the following key principles against which we would measure success of reform:

- Fairness to businesses across the UK
- Sustainability into the future
- International competitiveness
- Flexible enough to respond to the economic cycle
- Inclusion of incentives for businesses to invest
- Simple and cost effective to administer
- Transparency to ensure accountability