BRC response to Tranche 2 of the Call for Evidence of the Business Rates review

Summary of key points

In the short term

- **Covid-19 has accelerated existing trends in retail and reduced the viability of many store locations**
- **Government must avoid a cliff edge in April and should apply a 50% retail rates relief for 2021/22, reflecting falling footfall and market rents**
- **An announcement on relief in 2021/22 needs to be made urgently to avoid unnecessary store closures and job losses**

In the longer term

- **Valuations need to be more closely linked to market values; revaluations should be at least every three years, and more frequently if/when systems and technology allow**
- **The Valuation Office Agency (VOA) should make greater use of data supplied by ratepayers to determine valuations, but this should not be publicly available**
- **Downwards phasing of transitional relief must be scrapped and the requirement for the business rates system to be self-funding abolished**
- **A new Improvement Relief should be introduced to incentivise investment in measures that move properties to a lower carbon footprint**
- **The Check, Challenge, Appeal timelines are excessive and must be shortened, the process improved, and the VOA fully funded to meet these new targets**
- **We will engage with alternative methods of taxation such as CVT or online sales should detailed proposals be made; the key principle is that retail is an overtaxed industry and there should be no net additional tax burdens placed on it**

About the BRC

As the trade association for retail businesses, our purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic and diverse industry. It is a driving force in our economy, a hotbed of innovation and the UK's largest private sector employer. Retailers touch the lives of millions of people every day, supporting the vibrancy of the communities in which they operate. The industry today is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

Retailing will continue to evolve and advance. Online retail will continue to grow as retailers invest in new emerging technologies; there will be fewer stores and those stores remaining will offer new experiences; there will be fewer, but better jobs and a career in retail in the future will be very different to today.

We are committed to ensuring the industry thrives through this period of transformation.

We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit.

We do this in a way that delivers value back to our members, justifying their investment in the BRC. This membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.

Introduction

1. The BRC welcomes this review. Business rates is an unsustainable and contentious tax. This is recognised through the Treasury's own review conducted in 2015/16, and most recently in inquiries by the Communities and Local Government and Treasury Select Committees, as well as the broad range of voices across the business community that are calling for reform. We welcome the division of the review into two 'tranches'. It demonstrates a willingness by Government to take initial steps in the autumn and to take more considered action over a slightly longer period.

2. We also welcome the recent actions on business rates and other areas by the Treasury in the context of Covid-19. The early and decisive move to offer retail and other sectors a 100% business rates relief this year was for many the difference between trading and ceasing trading entirely. We also welcome the postponement of the 2021 revaluation to 2023 to allow a 2021 valuation date to take into account post-Covid rental values.

The immediate future: avoiding the cliff edge

3. For parts of the retail industry a full business rate liability in 2021/22 will be the difference between being able to trade and keep staff employed or not. For ***all*** parts of the retail industry with stores, it means the difference between more or less store closures and more or less job losses. It is therefore vital to ensure that some level of relief continues to be given to the retail industry next year, to otherwise viable businesses, in order to prevent an unnecessarily high number of job losses.

4. There was an oversupply of retail space in the UK before Covid-19, and trends since February have only increased this as shoppers increasingly shop online - 30% of non-food retail sales were made online in February, this had risen to 40% by September. The share of grocery sales made online rose from 7% to 15% over the same period. This will not return to pre-pandemic levels even once a vaccine is available. The economics of store-based retailing has shifted.

5. The oversupply of retail space (as opposed to warehouse and logistics space) will continue to push retail rents down, increasing the disparity between their 2015 rateable values and their current market value. Footfall in September was down by 30% year-on-year, with high street footfall down by 37% and city centres in general being impacted even more heavily,

with London footfall down by more than half compared to the same period last year. Constraints on public transport capacity, consumer worries about safety and economic uncertainty, as well as potentially further local or national lockdowns, do not suggest that this will increase in the short term. As one member described it, 'we pay rent for footfall' – as a result of huge and sustained drops in footfall, retail rents have accelerated their pre-Covid-19 fall, and business rates for retail need to be adjusted for the period after April 2021 up to the start of the new list in 2023 to account for this economic reality.

6. A 'cliff edge' imposition of 100% rates liability next April will cause unnecessary store closures and job losses and increase the number of company failures. A level of discount must still be applied to the retail industry (and potentially others) to enable it to trade its way out of the impact of Covid-19. This discount should ideally reflect the fall in retail rents since 2015 so that there can be some rebasing to market values pending the 2023 list. Although there are very few transactions on which to assess market values since April, taking into account available data and expert views, we believe that retail rents have fallen between 50-75% in England (excluding London) since 2015. There is significant regional variation, however, and a high degree of uncertainty for the past quarter. We therefore suggest that a 50% discount on rates liability for retail in 2021/22 strikes the right balance between support for the sector and a figure more closely aligned to current market values. In the event of another national lockdown, this discount should revert to 100% for at least the period of the lockdown (this should equally apply for businesses required to close in areas under a local lockdown).

7. We understand that the Chancellor had intended to make an announcement about the level of business rates in 2021/22 in the Autumn Budget. Now that this is no longer happening, he should take advantage of the flexibility offered by this opportunity and announce his intentions about 2021/22 business rates as soon as possible. Retailers are making decisions now on store closures and redundancies without any certainty of business rates levels in 2021/22. Businesses will terminate leases and reduce headcount on the basis of a worst-case scenario, creating unnecessary unemployment and economic harm – but some of this harm can be avoided if retailers have certainty soon about their 2021/22 business rate liability. The BRC asks the Chancellor to make an announcement urgently on business rates for 2021/22 to prevent unnecessary job losses.

BRC priorities for business rates

8. The BRC set out our priorities for reform (covering subjects in both Tranches) in our responses to Tranche 1. These are:
    - The multiplier should be fixed (and reduced) with no variation based on geography, type of property or value;
    - The range of reliefs should be reduced and simplified and remaining reliefs aligned to wider policy objectives incentivising investment to improve sustainability. They should be determined by central government or in line with central government guidance;

- The abolition (through central funding) of downwards phasing of transitional relief in 2021/22 leading to full abolition of downwards phasing in the 2023 rating list;
- Acceleration of the immediate resolution of the backlog of appeals, and scrap or radically improve the Check, Challenge, Appeal process;
- More frequent revaluations based on more transparent, publicly available data on freehold and leasehold property values;
- The Valuation Office Agency should be fully resourced and its processes modernised;

Additional/alternative taxes:

- A 'Capital Values Tax' should be explored further so that its merits and drawbacks can be assessed more fully;
- Existing business taxes such as Corporation Tax and reviewing the scope and reducing evasion of VAT should be explored as alternative sources of revenue;
- While the burden of taxation falls unevenly across the retail industry, this is due to the overreliance on property in the UK's taxation system and because of problems with tax base erosion and profit shifting. International agreement through the work of the OECD should be the mechanism to tackle this and this should be progressed urgently to raise additional tax revenue;
- BRC opposes any new/supplementary taxes that would give rise to an additional tax burden on consumers and the retail industry, which is already overtaxed;
- We would engage with any proposals for new taxes, if they came forward.

Why a healthy retail industry matters

9. The story of the UK's retail sector in recent years is one of success – it is one of the most competitive markets in Europe and provides customers with phenomenal choice, value and convenience. Retail is the country's largest private sector employer, with roughly 3m people working in it in 2019. The sector substantially adds to the performance of the UK's economy as a whole - its productivity increased by 85% between 1990 and 2014, faster than the rise in productivity for the UK as a whole (40%)[1], and this progress has continued in recent years.[2] As the paragraphs below explain, this activity supports a significant share of the Government's tax revenue and supports wider employment market flexibility.

10. Retailers invest huge amounts in their business and their workforce. The speed at which many grocers and others scaled up their operations, or pivoted to increased levels of online market sales, in the past six months is testament to the capacity and resourcefulness of UK retailers.

11. However, the impact of business rates threatens this success story. Business rates particularly affect retail, which is overtaxed relative to other business asset classes such as offices or distribution and other sectors of the economy. The sector accounts for 5% of the

[1] 'Productivity in the Retail Sector: Challenges and Opportunities', IES, March 2016
[2] Shop for tomorrow's workforce: Retail productivity', Deloitte, October 2017

UK economy by GVA but pays 10% of business taxes and 25% of business rates. For some larger retailers, business rates account for half of their total tax bill.[3] For one major national supermarket, business rates account for 57% of their total tax bill. The importance of this tax to the health of the retail sector cannot be overstated. Business rate liability is the difference between trading and unnecessary store closures and job losses for many retailers.

12. The burden of rates falls particularly on those locations that attract higher rental values, such as town centres, but the businesses bearing the tax occupy a wide diversity of property types, from shops to offices and distribution centres. This said, high streets and town centres across much of the country are facing enormous challenges. Even before Covid-19, the demand for retail space was falling dramatically, with some estimates putting the oversupply of retail units as high as 20%. The overall number of retail stores has declined by approximately 1,000 stores per annum in recent years, and the pace of closures is increasing. Analysis by PwC and the Local Data Company found that the first half of 2019 saw a net decline of 1,234 chain stores on Britain's top 500 high streets - the highest number since their records began in 2010.

13. The closures are not evenly spread geographically, with so called secondary and tertiary high streets being particularly hard hit – the shops vacancy rate across the whole of the UK reached 10.3% in July 2019, but vacancy rates in some locations exceed 25% or even 45% of floorspace , taking the heart out of these town centres. At the same time many retail locations are flourishing, suggesting an increasing polarisation between 'successful' and 'declining' locations.

14. The number of people working in retail has also fallen in recent years and this trend has accelerated in 2020, with more redundancies expected in the coming months. The BRC estimates that gross job losses in retail in 2020 will exceed 250,000, with net job losses exceeding 130,000 – more than for the last four years combined.

15. Retail employment matters because it offers particular advantages compared to other sectors of the economy. Retail has been a haven for people wanting to work locally – it is the biggest employer of people who walk to work. Retail also employs a disproportionately higher percentage of women than their share of the workforce would suggest (60% compared to 48%), aiding social mobility. By their nature, many jobs in retail also offer flexibility in hours, which are valued by those with caring responsibilities (either looking after children or other adult members of the family) who are disproportionately women.

16. Retail also has a relatively young workforce. 24% of the workforce in 2018 was aged 24 and under, compared to 12% of employees in the UK as a whole. Through providing a variety of entry-level roles, retailers enable many young people with a range of

[3] BRC analysis of 'The total tax contribution of the 100 Group -2019', PwC

qualifications to access the labour market. Retailers' apprenticeship schemes and employer-funded workforce training offer huge opportunities for career progression, further boosting labour market flexibility, skilling up the UK workforce, and improving the country's productivity.

17. It is accepted that there will be fewer jobs in the retail sector in the future as industry adapts to changing shopping habits. However, these jobs will require greater skills and training, and will be better paid on average than existing roles. As the industry transforms this process should be a managed one that supports a smooth transition. An unsustainable business rates burden risks that managed process and those better paid jobs of the future, and so undermines the potential productivity of retail and its contribution to the UK's GDP in the coming years.

The principles of good taxation

18. Before setting the BRC's views on the questions in Tranche 2, it is useful to set out the principles against which 'good' taxation should be judged. Taxes should be:
    - Efficient – they should minimise impact on people's behaviour
    - Fair – how different taxpayers are affected by a tax
    - Sustainable – resilience to changes in demography or society
    - Simple – straightforward to understand, administer and collect
    - Predictable – allowing people and businesses to make decisions in a stable and certain policy environment

19. The question numbers below correspond to those in the Call for Evidence.

Valuations and transitional relief

Q 10. What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?

20. A central problem with the business rates system as currently constructed is the disconnect between valuations and actual market values. With Antecedent Valuation Dates (AVDs) occurring two years before a new list starts, and five-year valuation list periods (which have now twice been extended to seven-year periods) the difference between notional rateable values and actual market rents is substantial.

21. The BRC supports the extension of the current list to 2023 so that post-Covid valuations can be taken into account in a 2021 AVD. This is a more sustainable approach than locking in pre-Covid valuations from the 2019 AVD for a number years from April 2022. However, this means that a transitional approach will be required to support those businesses particularly affected by the pandemic between April 2021 (when current reliefs expire) and the start of the new list in April 2023. As set out in the introduction above and in our Tranche 1 response, an appropriate level of relief for retail for at least 2021/22 would be 50%, recognising the drop in retail rents and the continuing decline in footfall compared to

levels pre-Covid.

22. This short term need for continuing relief demonstrates a key problem of long list periods, namely the disconnect between rateable values and actual market values. Ratepayers in March 2017 were paying business rates based on 2008 valuations (notwithstanding transitional or other reliefs); and by March 2023 ratepayers will still be paying rates based on 2015 valuations. When a property tax is based on values that are up to nine years out-of-date it creates particularly adverse impacts and undermines the sustainability of the tax system.

23. A number of reports and commentators, including the BRC, have argued for more frequent revaluations, although views differ as to the preferred frequency. Some argue for annual revaluations, which have much to offer. They would negate the need to design transitional relief schemes and would significantly reduce appeals as valuations would only be for one year and would in any event be based on more recent data than valuations up to seven years out of date.

24. However, we have reservations about the capacity of the Valuations Office Agency (VOA) to undertake annual revaluations at this time, and about the administrative impact on ratepayers of having to engage in an annual revaluation process, whether by submitting data and/or self-assessment.

25. The BRC considers on balance, therefore, that a reduced valuation period of three years – as was being legislated for by Government before the pandemic- strikes the right balance between a link to market values, predictability and administrative burden.

26. This support is caveated however – should VOA capacity and/or systems of data collection be modernised to the extent that annual revaluations are possible and practical for the VOA and ratepayers alike, then we would be open to supporting an annual revaluation.

Q 11. What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?

27. The BRC is not favour of banded or zone-based valuations. A central criticism of the business rates system as currently constructed is that valuations are out-of-date from the day they apply, and only get more so over time. A system that made those values even less specific at the outset would be a perverse remedy to this.

28. Zone-based valuations would incur the same problems as zone-based multipliers that we highlighted in our Tranche 1 response: bunching round the limits of different bands due to potentially perverse incentives such as not moving into higher band properties for fear of incurring an effectively higher marginal tax rate.

29. The VOA should move to a system that uses data already submitted by ratepayers (either though Land Registry records or Stamp Duty Land Tax (SDLT) returns, or through rent data specifically submitted to the VOA) to determine rateable values (see below). The VOA would be able to make assessments of value based on relatively up-to-date real-world information, negating the need for banded valuations and enabling it to focus resources on

providing accurate valuations for hereditaments that don't have such data.

Q 12. What are your views on changing the valuation process or the information provided to the VOA, to enable more frequent revaluations?

30. As stated above, the VOA should use data that ratepayers already provide to the state to help in assessing rateable values. These are:
    - SDLT returns – required for leases over seven years, with Stamp Duty payable subject to the rent paid
    - Land Registry records – most leases over seven years must also be registered with the Land Registry

31. If the above sources of rent data were routinely able to be accessed by the VOA in the course of revaluations – they could be combined with data submitted by ratepayers directly to the VOA to enable a more accurate valuation to occur than is currently the case. This would enable faster valuations and reduce the risk of appeals, further reducing the resource requirement to the VOA.

Q 13. What are your views on the relative importance of the period between the AVD and compilation of the list vs. more frequent revaluations?

32. As stated elsewhere in this response, one of the core problems with the business rates system is the disconnect between rateable values and actual market rents. In retail this is directly contributing to unnecessary store closures and job losses. Therefore, it must be a principle of reform that rateable values reflect current market values as closely as possible.

33. The BRC appreciates that time is needed following an AVD to produce valuations. However, with greater access to existing records and greater sharing of data by ratepayers, as well as sufficient investment into the VOA's capacity, we believe that this time could be shortened from the current two year gap to eighteen months. We note in this context the recent announcement in Scotland to have an even shorter 12-month gap between the tone date and a new list. While this would be desirable in England we remain doubtful that it is currently practical given current valuations processes and VOA capacity, but, if possible, we would support a 12-month period between the AVD and the start of a new list in England.

Q 14. What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?

34. The comparison basis of rental valuation is the most appropriate basis of estimating rents, although this should be supplemented by data submitted by ratepayers from SDLT returns and data given directly to the VOA, as set out above.

35. Notwithstanding the above, the current pandemic has led to many occupiers seeking an

increased reliance on turnover rents – or rental arrangements where turnover is greater component – than previously. We believe that retail leases will increasingly feature a turnover element, and the VOA will need to resolve how it deals with valuations of these. Many retail units, particularly those in shopping centres, already have a turnover basis to their rent and so there is a base from which to develop the VOA's approach, but the BRC would like to work with the VOA to develop and refine its approach to valuations for turnover rent leases.

Q 15. If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?

36. See answer to question 6.

Q 16. What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

37. The BRC does not support transitional relief as currently designed. While we support a system that protects ratepayers facing increases in their bills following a revaluation, requiring other ratepayers who should be paying less to fund this staggered increase over time is iniquitous. Worse, it has a disproportionate sectoral impact that undermines businesses' ability to invest and employ people and damages the economy in parts of England that need more, not less, support. Due to the time lags involved, it also means that valuations have even less relevance to current market values than would otherwise be the case.
38. As we set out in our response to Tranche 1, the requirement for changes to the business rates to be self-financing is historic and unique. It produces perverse results in the design of business rates, of which transitional relief is the most significant. The principle of revenue neutrality must be abolished, so that business rates can be designed in a way that incentivises investment, encourages economic growth and employment, and responds to economic circumstances in a timely way.
39. For example, revenue neutrality requires upwards transitional relief to be funded by downwards phasing of transitional relief. It therefore makes the bills of large numbers of ratepayers artificially high. Given the seven-year gap between the 2015 AVD and the end of the current transitional relief scheme, this means that some properties will in effect still be paying business rates partly based on 2008 (the previous AVD) values in 2021, and will only reach their 'correct' valuation in the final year of the current list – 2022/23. This cannot be a sensible approach to valuing or taxing commercial property.
40. The current transitional relief scheme particularly discriminates against the retail sector, and particularly in regions that Government has identified as in need of 'levelling up'. Retail accounts for one third of the gross £3.6bn cost of the current transitional relief scheme despite only accounting for 25% of business rates revenue. In net terms retail will have 'paid in' £650m more through transitional relief between 2017-2022 than it will have

'received'.[4] The impact of this is to make stores unviable. Although rents have fallen in this time, reducing property costs, many business rates valuations are still indirectly linked to 2008 values due to downwards phasing, making property occupation costs unsustainable overall, exacerbating closures, job losses and high street decline.

41. The adverse regional impact is also strongly felt. Treasury analysis shows that the cost of the 2017-22 transitional relief scheme was disproportionately incurred in economically challenged regions of England, with the North West and Yorkshire & Humber regions each paying approximately £200m net into the scheme. This was in order to maintain revenue neutrality for staggering rate increases in regions like London, where ratepayers will have benefited by over £1bn in staggered rate increases between 2017-2022.[5]

42. While protection for those facing steep increases in business rates should continue, the funding for this should come from general tax revenue, and not from within the business rates envelope. Increases in income tax thresholds are not funded from higher rates of tax, and falls in Corporation Tax are not automatically offset by widening its scope, and so staggered increases in business rates for some should not be paid for by staggered decreases for others. Removing the self-financing requirement would enable a more rational system of support to be established which does not require economically damaging reverse engineering such as that evidenced by downwards phasing.

43. If the Government moves towards a three-year list period, there may be no need for a transitional relief scheme at all as values will changes less dramatically over a five year 'AVD-to-end-of-list' period than they do over a three-year one. However, we are not advocating this, merely noting that shorter list periods would not necessarily require as much reverse engineering of rates bills as currently happens.

Plant and machinery and investment

Q 17. What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?
Q 18. Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?
Q 19. What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?
Q 20. What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?

44. We will answer questions 17-20 as a whole. The treatment of P & M is not of primary concern to retail members but there are some key points that need addressing in this review.

45. When retailers are investing in their properties the classification of certain types of investment as P & M – and therefore attracting business rate liability – acts to disincentivise

[4] Consultation on the transitional arrangements for the 2017 business rates revaluation: Summary of Responses and Government's Response, DCLG, 2017
[5] Ibid.

that investment. Improvements such as solar panels, CCTV, and sprinklers attract higher business rates, despite these meeting public policy priorities such as the move to net zero, lower crime and fire safety, respectively. Hardware such as these should be de-rated to support more investment in commercial property which meets these priorities.

Q 21. How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?

46. Business rates are too high, making the UK uncompetitive internationally and holding back the UK economy domestically. The business rates system, like any other tax, should incentivise and support investment. Instead, all too often, it holds it back. Simply lowering the tax burden would go some way to achieving this, as would other more targeted measures that incentivised investment.
47. The level of business rates disincentivises global investment in the UK by making the country less attractive to invest in: the property tax burden is a higher proportion of business taxes overall than in other developed countries, and the UK has the highest commercial property tax in the EU and the third highest in the OECD. The multiplier in England has risen by 50% since 1990, with the income from business rates significantly exceeding inflation during this time.[6] As the UK exits the European Union it should seek to attract international investment – lower commercial property occupation costs would be one important way to help secure this.
48. The adverse impact of business rates, already high compared to international peers, is compounded by the nature of the tax. As an input tax it bears limited relation to business viability, and is a sub-optimal tax economically, which hinders the productive capacity of the economy compared to other taxes.[7] We do not go as far as to suggest that business rates or any other property tax should be scrapped entirely as there are advantages to such taxes. Rather that, if there is to be a property tax, then the objective should be to keep its rate low to maximise the scope for economic growth. This has clearly not been the case with business rates, which is why we welcome the first commitment in the Terms of Reference for this review as being to lower the burden of business rates.
49. The level of business rates has a direct effect on economic activity and employment. For retailers, the higher the burden on business rates, the fewer shops they are able to keep open and the fewer people they are able to employ.[8] The BRC surveyed members on the likely impact of a reduced or no business rates discount in 2021/22. This found that, if a retail discount next year were 50% or more, then three-quarters of respondents would, on current sales, be able to keep almost all their stores open. By contrast, if business rates returned to 100%, half of retailers would close between 20-40% of their stores, with all the consequential impact on tax revenue from lost economic activity and employment, as well

[6] Impact of business rates on business, HoC Treasury Select Committee, October 2019
[7] 'Reforming the Tax System for the 21st Century: The Mirrlees Review', IFS 2011
[8] See the BRC's response to Tranche 1 as to why we do not believe that the capitalisation of rents applies, at least in the short term, for many retail properties.

as the wider social impact of vacant town centre and high street property.

50. Beyond lowering the burden to make the UK economy more competitive internationally and productive domestically, one particular change the business rates system which would support economic growth is one that we recommended in our Tranche 1 response. An improvement Relief, which removed business rate liability for three years for improvements made to a property, would do three positive things for business investment and growth:
    1. By incentivising investment, it would generate economic activity from the building work undertaken;
    2. It would improve the functioning of the property (e.g. by making it more energy efficient or safer); and
    3. After the three-year period had elapsed it would add to the overall rateable value of the commercial property, boosting Treasury revenue.

Q22. How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?

51. Linked to the answer given above, an Improvement Relief could be designed to specifically support the decarbonisation of buildings by being targeted to only those improvements that improved energy efficiency, such as placing solar panels, or installing insulation or thermally efficient doors and windows.
52. The logic of using Improvement Relief to support wider public policy priorities could be extended so that it applied to any measure that met objectives such as improving public safety (through installation of CCTV, for example).

Valuation transparency and appeals

Q23. What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?

53. The Check, Challenge, Appeal (CCA) process has suffered from many flaws. Burdensome registration processes – both for individuals and properties - combined with a lack of capacity to process cases quickly, and concerns over the VOAs willingness to share comparable data led to significant frustration with the system. The lack of ability to interface with agents' system in particular led to a backlog of cases that weren't even able to be registered.
54. However, we note the VOA's efforts to improve the working of the CCA process and the falling numbers of cases held up in the system. The resolution of the ATM case in May in particular should conclude over 50,000 appeals.

55. Despite the improvements to the system in recent years, further changes are still required.

We recommend two specific improvements underpinned by a broader requirement.

56. Firstly, the response times for the VOA remain excessive when assessed against the principles of fairness and predictability. The VOA currently has 12 months to respond to Checks and a further 18 months to respond to a Challenge before the matter must go to Appeal. While the majority of claims are processed within this timescale, many are not. As the Treasury Select Committee recommended in the report of its inquiry into business rates last year,[9] it is not acceptable that a ratepayer might have to wait up to two-and-a-half years to have an appeal against a valuation determined, and these response times must be shortened. The Select Committee suggested that a six-month limit each for a Check and a Challenge would be more appropriate, and we agree with this.

57. Secondly, we are aware of some ratepayers short-circuiting the CCA process by speaking directly with the VOA to discuss their valuations and reaching bespoke agreements with it through bilateral discussion. The BRC understands that this is an option open only to a very few ratepayers by virtue of their rateable value. While it may be advantageous for the ratepayers concerned, any process that enables revaluations outside of the formal CCA process undermines the equity of that process for other ratepayers. Either the VOA must require all ratepayers to use the CCA route – and invest in its processes to make it much quicker – or it must allow access to all ratepayers, regardless of their size, to speak to the VOA about incorrect valuations with a view to amending them outside of the CCA process.

58. Finally, the VOA must review its decision on when to share comparable rent data with ratepayers challenging its valuation. The intention when CCA was established was to reduce the need for appeals where all that was needed was to establish the basis of the VOA's valuation. The lack of sharing of the basis of valuations at an earlier stage of the CCA process has undermined this aim and has led to challenges taking place for the same reason that unnecessary appeals did under the old system. This must be reviewed by the VOA.

59. The Government must resource the VOA to perform these functions. There has been a reduction of trained valuers and offices at the VOA over several years, and it is only with investment in more modern systems, processes and staff that the recommendations above can be implemented.

Q24. What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?

60. We support the sharing of rental/lease data with the VOA for the purposes of valuations of hereditaments. However, we do not support the use of the data for other purposes, or its sharing with other public sector organisations.

[9] Impact of business rates on business, HoC Treasury Select Committee, October 2019

Q25. What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?

61. We do not propose to answer this question.

Maintaining the accuracy of ratings lists

Q26. What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?

62. As stated above, a central problem with the business rates system is the time lag between valuations, which means that rateable values are two years out-of-date by the time they come into effect and up to eight years out-of-date by the time the next list comes into effect. This distortion is compounded where valuations are incorrect and/or based on poor data on comparable properties.

63. The two-year gap between the AVD and the start of a new list is partly due to the need for the VOA to gather the data on which to base valuations. If it had access to more recent market data, supplied at points such as new leases or lease renewals, this would reduce the time needed to estimate rateable values, as well as increase their accuracy. This would consequently save the VOA time in producing a new list following an AVD and result in fewer appeals and less ratepayer frustration with the system. The BRC therefore supports a requirement for ratepayers to provide the VOA with relevant rental data, subject to the following caveats:

i. That it is only used for purposes of determining rateable values and not made publicly available;
ii. That the process for providing such information is not administratively burdensome for ratepayers; and
iii. That there is no penalty for not supplying such data (the risk of incurring an inaccurate valuation should be incentive enough for ratepayers).

Q27. What are your views on making a register of commercial lease information publicly available?

64. While the BRC would support greater use of existing data held by public authorities in determining rateable values, we would not support a publicly available register of commercial lease data, for reasons of commercial confidentiality.

Q28. What are your views on introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?

65. See answer to question 26.

The billing process

Q29. How can the current billing process be improved? What changes would provide the most significant benefits to ratepayers through for example, cost or time savings?

66. Our response to Tranche 1 of the Call for Evidence recommended linking business rates bills to online tax accounts for businesses. This would enable them to see their total business rate liability rather than having to manually check each bill that they receive. This would also support businesses in determining whether and when they reach state aid limits for any reliefs or support that they are given. Members also tell us that they would like to be able to receive bills electronically as an option.

67. Many of the BRC's members are retailers with stores located in tens if not hundreds of local authorities. At a very prosaic level, standardising billing formats would be very helpful in understanding bills, although we appreciate that they will often be in the same format to other local authority documents (like Council Tax bills) and so this may be administratively challenging.

Q30. What are your views on a centralised online system linked to other business taxes, enabling more joined-up data and management of billing across different locations? How could this best support ratepayers and billing authorities?

68. See answer to question 29, above. We support this. It is increasingly anomalous in the digital age that business rates bills can only be sent in hard copy and that different parts of the state cannot share information that is held across different departments for the same purpose (tax collection).

Q31. What sort of support would businesses and agents expect to receive when moving to a centralised online process, and from where would you expect to receive it?

Q32. What, if any, criteria should be applied in exempting certain ratepayers from online billing?

We do not propose to answer this question.

Exploring alternatives to business rates

Q33. What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?

69. It is hard to give a detailed answer to this question as much would depend on the specifics of any scheme that was proposed. However, in general terms, the BRC considers the following to be the likely benefits of a CVT or similar system of taxation:

- A system with fewer ratepayers would be more administratively efficient – 2 million rateable properties would be replaced with 800,000 landowners;[10]
- If property was valued according to its optimal planning use it might incentivise development;
- It might particularly incentivise bringing vacant land into use; and
- It would make property occupation costs more transparent for occupiers as the rent bill would include CVT costs.

The following are some of the likely costs of a CVT or similar system of taxation:

- It would require the identification of owner in England, a process that is still not complete despite ongoing Land Registry work;
- It would require the revaluation (using a different methodology to the current ones) of all of commercial land; and
- It would most likely take several years to complete the above and would need carefully designed transitional arrangements to move from business rates to the new system.

70. The BRC does not have a preference for CVT over any other system of property taxation. However, in considering alternatives, the Treasury must have regard to how the incidence of taxation falls across different sectors and different regions, and the administrative burden of moving to an entirely new system of property taxation.

71. Before any support could be given to a decision to undertake such a wholesale change in the system of property tax, we would expect to see and be able to comment on the development of fully worked up and costed proposals.

Q34. What evidence is there of the benefits that replacing business rate with a CVT would have in practice, for example, on business investment and growth?

72. We do not propose to answer this question.

Q35. How can land and property be valued fairly and efficiently under a CVT in England? What evidence is available to do this?

73. We do not propose to answer this question.

Q36. How would replacing business rates with a CVT affect the distribution of taxation?

74. We do not propose to answer this question.

[10] 'Replacing business rates: taxing land, not investment', Liberal Democrats, 2018

Q37. What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the government ensure effective collection from and compliance by these taxpayers?

75. As stated in the answer to question 24 and was suggested in the Call for Evidence, it is likely that a system that moved liability for tax from tenant to landowners would be less administratively burdensome by virtue of reducing the number of taxpayers and bills by two thirds given the lesser number of landowners compared to tenants. We do not propose any particular means of effective revenue collection and compliance by taxpayers.

Q38. What lessons can be learned from other countries experiences with CVTs?

76. Please see the answer to question 25.

Q39. What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?

77. We do not propose any alternative approaches for the taxation of land. However, we make the following recommendations for alternative methods of taxation to raise revenue in order to offset that lost through a reduction in business rates, should the Treasury determine that it needed to mitigate lower tax receipts.
78. In looking at other options for raising tax revenue, Treasury may wish to consider the following options. It should be noted that we put there here for consideration and do not advocate any of these.
79. Corporation Tax – the UK already has one of the lowest rates of Corporation Tax in Europe. As a tax only paid on profits it is more transparent and engenders less frustration and opposition than business rates. As a tax on outputs it is also more economically efficient than rates. We note the Government's cancellation of the commitment to reduce Corporation Tax to 17% from its current rate of 19%. Increasing the tax rate further by 2% would take it to 21% - the rate that it was at in 2014/15, itself the lowest ever rate at that time. This would be a lower rate than the EU average corporation tax rate of 22.5%, as well as lower than the global average corporation tax rate of 21.4%.[11] The BRC notes economic theory (i.e. the Laffer Curve) that suggests that increasing tax rates reduces net revenue, but also notes that this is often estimated to only apply once a tax rate goes above 50-70%. There is no evidence that we are aware of that a tax rate of 21% would have this effect, indeed, it would still be the lowest corporation tax rate in Western Europe after Iceland and Ireland. As such, even with this rise, the UK would remain highly competitive in tax terms in both the European and global context.
80. VAT – while a rise in VAT would adversely affect consumer spending and confidence, Government must redouble efforts to reduce the tax gap – the amount of tax due but not collected. In 2018-19 this was estimated to be 7% of VAT theoretically due – equivalent to

[11] https://taxfoundation.org/corporate-tax-rates-europe-2019/

£10bn.[12] We recognise ongoing efforts to reduce this gap over time, but note that any future increases in VAT revenue collected – including from closing down loopholes in registration for import VAT payments, for example – should go towards offsetting the business rates burden.

81. International tax – we note ongoing participation by Government with OECD work on Base Erosion Profit Shifting (BEPS), which seeks to capture profits made within jurisdictions by multinational enterprises that span several countries. We recommend that the Government continue to seek to harmonise global tax regimes as the best way to address concerns about value capture from multinational enterprises, and that revenues from this source should be directed to offset the business rates burden.

Q40. What would be the benefits and risks of introducing an online sales tax?
Q41. Which services and products do stakeholders think should be subject to an online sales tax and what evidence is there to support this?
Q42. What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?
Q43. How could an online sales tax affect the distribution of taxation?

82. We will answer questions 40-43 collectively. In principle, the BRC does not support any measure that increases the overall tax burden on the retail industry. Retail accounts for 5% of the UK economy by GVA but pays 10% of all business taxes and 25% of all business rates. Any new tax burden that was a net additional one on the sector would not be the answer to the problems of an already overtaxed industry.

83. However, we would of course engage with any specific proposals for taxes, should they come forward.

84. It is worth noting the rising popularity of online sales and the increasing attachment that consumers have to online shopping. Online grocery shopping accounted for 7% of all food shopping before the COvid-19 pandemic; that has now doubled in barely six months to 15%. Non-food online sales have risen a third, from 30% to 40% of all non-food retail sales.

85. The rate of growth of online sales has been between 40-60% a month since March. Wile we do not expect this to continue, we equally do not expect the profile between online and offline sales to revert back to pre-Covid-19 levels after the pandemic is over.

86. The nature of online sales is complex. It is not as simple as separating a sale made in a store and a sale made online. Some sales are made online but collected in-store, others may follow a visit to a store and a sale made online in that store's digital system, others may be sold online and returned in-store. Retailers increasingly see their customer journey as a integrated one between the physical and the digital, and both channels complement each other to create sales.

87. In order to properly consider an online sales tax there are a number of questions that need to be answered.

[12] 'Measuring tax gaps 2020 edition Tax gap estimates for 2018 to 2019', HMRC 2020

88. Intention - what is the intention of the tax? If it is to address structural problems with the impact of business rates on the retail sector, how would Treasury ensure that any online tax levied on retail saw the benefits of that tax flow back into the sector? Retail contributes 25% of total business rate but would potentially bear 100% of the burden of an online sales tax. Unless revenues were hypothecated towards, for example, a retail-specific multiplier that was lower than the UBR, how would the Treasury ensure that retail as a sector was not a net loser from an online sales tax? Would such a tax be an additional burden on retail or would it offset the broader retail tax burden?

89. If by contrast the intention of the tax would be to encourage investment in physical stores to encourage consumers to shop in physical locations, supporting local high street economies, then the best way to achieve this would be to lower the property tax burden on retailers. An additional tax on another part of those retailers' businesses will not achieve this outcome. Consideration must also be given to the relative operating costs of online sales vs sales in physical locations. Each attracts its own distinct range of costs, and any consideration of an online sales tax should be fully cognisant of how those costs fall.

90. Unintended consequences: should the Treasury wish to develop its thinking on an online sales tax, it would need to consult extensively with stakeholders to assess the range of possible adverse impacts that could arise. For example, there is evidence that the Digital Services Tax (DST) is being 'passed through' direct to customers of the businesses on whom it is levied, resulting in an increased tax burden on consumers. While we recognise that the intention of the DST is distinct to the conversation around other online taxes, there will be lessons that can be learned from the experience of the DST than should inform Treasury's thinking.

91. Scope: the Call for Evidence suggests at paragraph 6.17 that an online sales tax might be "focused on sales in direct competition with those carried out through physical premises". This would apply to the supply of most if not all services in addition to the sale of goods. For example, travel agents can sell holidays through physical premises, and so by the logic of the statement above, an online sales tax would need to be levied on the sale of flights or hotel bookings in addition to consumer items. Indeed, given that most sales of goods or services online could potentially be done at physical premises (and in fact would have been twenty years ago), what would the scope of any online tax be, and how could it be drawn in such a way that was coherent and did not have unintended consequences?

92. Following on from this, would an online tax be levied on business-to-consumer sales or also business-to-business sales? Many of the former would have been transacted in physical premises were it not for the internet, and Treasury would need to be clear whether such sales would be included in the scope of any online tax, and if not, why not? The total value of UK e-commerce sales in 2018 was £688bn[13], far larger than the total value of online retail sales (circa £70bn in 2018), and so being clear about the scope of any such tax would have a significant bearing on how much revenue it might raise. Treasury should note that we already have a consumer tax, VAT, that raises the second largest take of any tax, and is widely applied, and broadly understood and administered.

[13] E-commerce and ICT activity 2018, ONS, 2019