PRIFYSGOL
BANGOR
UNIVERSITY

Bangor Business School
Bangor University
Gwynedd
LL57 2DG

Treasury Committee
House of Commons
London
SW1A 0AA

Tuesday, 30 April 2019

For the attention of the Committee Clerk,

RE: The impact of Business Rates on business inquiry

Thank you for the opportunity to respond to this Inquiry on the impact of business rates on businesses. This written evidence is submitted by Bangor Business School, Bangor University.

1. Bangor Business School, Bangor University

1.1 Bangor Business School is a name synonymous with research excellence, particularly in the area of Banking and Financial Services, in which Bangor is a leading European centre. In recent years, staff have conducted high level consultancy work including major policy studies for many leading organisations such as the European Commission, the World Bank and the UK Treasury. Staff regularly publish high quality research papers and articles in leading journals, and books, to a worldwide audience.

1.2 In 2017, Bangor Business School was awarded a two-year project by the Welsh Government to provide independent scrutiny and assurance of Welsh Government forecasts of devolved taxes for inclusion in the 2018/19 and 2019/20 Budget. These devolved taxes include financial responsibility for non-domestic rates (similar to business rates), devolved in April 2015; Land Transaction Tax and Landfill Disposals Tax which replaced UK Stamp Duty Land Tax and UK Landfill Tax respectively in April 2018; and partial devolution of Income Tax occurred in April 2019.

2. Non Domestic Rates (NDR)

2.1 Business rates (formerly known as non-domestic rates, NDR) are local taxes on the occupation of non-domestic property. NDR revenue helps to pay for local council services. NDR is a method of taxing business and other non-domestic properties from which the tax revenue raised is pooled and then distributed to local authorities (principal councils and Police and Crime Commissioners) based on a needs formula.

2.2 As with all tax revenues, it can be difficult to predict policy decisions, particularly in the longer term. NDR has been the focus of much attention recently, ranging from, for example, the Barclay Review of NDR in Scotland[1] to the Grimsey Review into "the High street" which highlighted NDR as an area for potential reform[2]. In addition, the Welsh Government has had a consultation exercise from April 2018 – June 2018 concerned with tackling avoidance of NDR in Wales[3].

3. Non Domestic Rates (NDR) in Wales

3.1 NDR is based on the rateable value of non-domestic property in Wales. The rateable value is multiplied by the multiplier to calculate the rates for the property. The Valuation Office Agency (VOA) assesses the rateable value of properties (which are publicly available) and administers any appeals on these in conjunction with the Valuation Tribunal for Wales (VTW).

3.2 The Welsh Government sets the multiplier every year. From 2018/19, this is set according to the consumer price index (CPI) in September of the preceding financial year. Previously this was set according to retail price index (RPI).

3.3 Non-domestic properties in Wales are normally revalued every 5 years. The latest revaluation came into effect on 1 April 2017, based on rental values as at 1 April 2015. The next revaluation is being brought forward to 2021. A rise or fall in rateable value at a revaluation does not necessarily lead to a corresponding rise or fall in overall NDR revenue: the multiplier must be adjusted to ensure that the overall yield remains the same.

3.4 In non-revaluation years, the multiplier is provisionally set in September of each year (as previously mentioned at point 3.2) from 2018 this is with reference to the CPI. Therefore,

[1] www.gov.scot/Resource/0052/00523643.pdf
[2] http://www.vanishinghighstreet.com/wp-content/uploads/2018/07/GrimseyReview2.pdf
[3] https://beta.gov.wales/sites/default/files/consultations/2018-04/180403-tackling-non-domestic-rates.pdf

in most years, tax bills increase or decrease in line with this measure of inflation. However, NDR revenues can potentially rise or fall more quickly due to a changing tax base which is linked to the economy (the value of properties added to the tax base exceeding the value of properties removed from the tax base) . This is referred to as buoyancy.

3.5 A number of reliefs and other adjustments are taken into account before the final available amount is calculated and distributed to local authorities. There are a number of reliefs (both mandatory and discretionary) in respect of NDR. These include Small Business Rates Relief, charitable relief, relief on empty properties and hardship relief. The profile of these reliefs is not constant.

4. Appeals

4.1 Appeals give rise to uncertainty for businesses. The outcome of appeals can have a significant impact on the final amount of NDR revenue available to distribute to local authorities.

4.2 In Wales, there has been a relatively high proportion of challenges received in relation to the number of hereditaments. For instance, around 40% on the 2010 list of rateable properties were challenged. However, only around a third of these challenges resulted in changes to the list which means approximately two-thirds of challenges resulted in no change to a hereditament's rateable value.

4.3 There is scope for a single successful appeal by a taxpayer to have a significant impact on the rateable properties list. For example, a recent successful appeal by BT led to a reduction in yield for the years up to 2019/20 of £8m (0.8% of the forecast distributable amount for 2019/20). Appeals are processed by the Valuation Office Agency (VOA) and VTW and successful appeals may be backdated over a number of years (until the beginning of the relevant list).

4.4 There is a lack of timely information on appeals being processed, so forecasting in respect of appeals is difficult, a challenge that has also been highlighted by the Scottish Government[4].

[4] https://beta.gov.scot/publications/foi-17-02453/

5. Alternatives to Non Domestic Rates

5.1 Local taxation in Wales, common with the rest of the UK, has changed little since the introduction of Council Tax in 1993. Non-domestic rates were introduced in 1990. Following the devolution of local tax raising powers under the Wales Act 2014, the opportunity now arises for the Welsh Government to review a system of local taxation that has been criticised for its lack of progressivity, its discouragement of business investment and its failure to raise adequate revenues to fund local service provision.

5.2 In this context, the robust deliberation of a Land Value Tax (LVT) as an option for funding local services in Wales is a sensible undertaking. LVT has a long history within economic thought and political debate. The case for such a tax is most closely associated with Henry George, but it has drawn widespread support from across the economics profession. Its most distinguished supporters have included Adam Smith, Milton Freedman and James Mirrlees.

5.3 It is important to note, however, that despite the widespread support for a LVT amongst many economists, such tax regimes are rare in the real world. Understanding the political and practical reasons for this is a key challenge in considering such a reform. These political and practical constraints to the implementation of a LVT are context specific, and understanding how they apply in the Welsh context has not been examined extensively.

5.4 There are some substantial practical barriers to this happening, not least the need to create and maintain an accurate database of site-by-site land use and ownership. The current system has a costly, bureaucratic and far from effective appeals process, but the introduction of a LVT would likely build on this given the inevitable contesting of land value that would take place. As Mr David Gauke MP said when he was the UK Government's Chief Secretary to the Treasury; "…the complexity and cost of administering a land value tax means that such a proposal is not tenable."

6. The impact of a reduction in Non Domestic Rates on Businesses

6.1 There is increasing pressure on the UK Government to consider scrapping the system of NDR, which many retailers blame for the decline of the UK high street.

6.2 Whilst scrapping NDR might reduce businesses costs in the short run, it will not make much difference in the long run. Businesses on the high street not only pay NDR but also pay rent to the owner of the property and of the land on which it sits. Because there is only a limited amount of land available for businesses, especially in popular urban areas where rent and business rates are highest, cutting NDR will simply lead to higher rental costs.

6.3 The objective of landlords is to maximise profits. Thus, any savings made by businesses (who pay their rent), due to a cut in business rates, will be absorbed into charging businesses higher rents.

6.4 Furthermore, as rent is a fundamental determinant of the value of property, it is expected that an increase in rent will result in an increase in property values.

6.5 Thus, as mentioned at point 6.2, cutting business rates will help individual high street stores in the short run but will not help in the longer run. The biggest winners from a cut in business rates will be the landowners and not the high street shops, or their customers.

6.6 It is important to think about the overall effects of changes to NDR. Businesses on the high street might be struggling to compete with online rivals, and might see that they have extra costs that the online competitor doesn't face. High business rates could be a large part of those extra costs, and could conclude that is what is causing the decline of the high street. However, businesses might not realise that if the NDR costs weren't there, rent would be almost pound-for-pound higher, so most of its cost disadvantage would still be there and the high street businesses would still be struggling to compete with its online rival.

If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Dr Edward Thomas Jones (e-mail: e.t.jones@bangor.ac.uk).

Yours faithfully,

Edward Jones

Dr Edward Thomas Jones

H W Rogers.

Dr Helen Rogers

J Closs-Davies.

Dr Sara Closs-Davies

Rhys ap Gwilym

Dr Rhys ap Gwilym