Non-Domestic Rating (Multipliers and Private Schools) Bill 2024-25

BPF position paper December 2024

Introduction

The British Property Federation (BPF) represents the UK real estate sector, an industry that contributes more than £107bn to the economy and supports 2.3million jobs. Our members are invested in commercial and residential real estate in communities across the UK - revitalising our cities and shared spaces, re-imagining our town centres, and creating vibrant new places designed for the way we live today.

Our comments relate solely to the new rates of tax for retail hospitality and leisure (RHL), and properties with rateable values above £500k.

Key messages

1. ***The overall tax burden on business will not be reduced by these measures – it will go up by £2.6bn.*** The UK imposes an arguably disproportionately high tax burden on property – *over double the OECD average*. Government should be seeking to reduce this, not increase it further. Historically, the temporary reliefs for retail hospitality and leisure have been funded by central Government. However, these permanent discounts to RHL will now be funded by other ratepayers, within the business rates system, increasing the rates burden on businesses even further.

2. ***Additional complexity and 'cliff edge' points will make more frequent revaluations harder***. More frequent revaluations are essential if we want our business rates system to respond much more quickly to changes in the economy. By introducing new tax rates for different asset classes and valuations, this will add more complexity and points of contention to the business rates system. This will make it harder to digitalise and automate – and it will make appeals even more likely around those contentious cliff edge points. Ultimately, this will make more frequent revaluations harder to achieve.

3. ***The additional tax burden should be shared by as broad a spectrum of the economy as possible.*** While the £500k threshold for the higher multiplier is arbitrary, it does at least capture a number of different industries, which means that a broad spectrum of the economy will share the additional tax burden. We would not recommend concentrating the additional tax burden on even fewer businesses in the economy.

4. ***Legislation introducing new rates of tax for RHL to be funded by properties above £500k should be deferred until after the Government's wider consultation on 'Transforming Business Rates' has concluded*** – the measures in this Bill will have an impact on the Government's wider objectives for business rates reform – notably around encouraging investment and creating a fairer system. Given these new rates will not come into effect until April 2026, it would be sensible to defer this legislation until after the Government's wider consultation has concluded.

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<u>**BPF position: Non-Domestic Rating (Multipliers and Private Schools) Bill 2024-25:**</u>

1. **This Bill does not lower the overall burden of business rates** - it is ultimately '**robbing Peter to pay Paul'** – Government isn't introducing new funding for the permanent reduction in RHL multipliers – so an even smaller proportion of properties (1%) will bear the extra £2.6bn business rates burden.

2. Introducing dramatically different tax rates for different asset classes and valuations is a big change to the current rating system – and these new measures will have an impact on Government's overarching priorities set out in their Transforming Business Rates consultation (notably around encouraging investment and creating a fairer system). Therefore, **we recommend deferring the introduction of legislation relating to the introduction of new multipliers for RHL and higher value properties until the Government has concluded its wider consultation on Transforming Business Rates**.

3. **Additional complexity and 'cliff edge' points will make more frequent revaluations harder to achieve -** new tax rates for different valuation points and asset classes will create more complexity in the system – and likely result in more appeals around the contentious 'cliff edge points. Given our ultimate goal of more frequent revaluations will require a simpler system which is more easily able to be automated and digitalised, these measures will make more frequent revaluation even harder to achieve.

4. **The damaging impact of the cliff edges should be mitigated -** the legislation allows for a spread of up to 30pin the multiplier (depending on the asset class and valuation of the property). This will create cliff edge points where a small investment results in a disproportionate uplift in business rates because the property is pushed into a higher tax rate. In order to mitigate some of the worst effect of this new legislation, we would suggest the following:
    - **Provide for a progressive 'slice' system –** whereby all properties can access the lower tax rates for the relevant proportion of their property's value (e.g. up to £500k) – and only the portion above £500k, is subject to the higher rate of tax.
    - **Introduce an equivalent of improvement relief which is available to landlords -** given over 55% of property is owned by landlords, it is important that investment in such a huge proportion of our commercial property stock is not disincentivised, particularly around these new 'cliff edge points.
    - **Reduce the range of tax rates –** the bigger the range in tax rates, the more material the cliff edges will be in terms of the additional tax burden that will result from a relatively small investment in a property. The legislation currently allows for a spread of circa 30p - we'd recommend restricting the legislation to a smaller spread, at least in the first instance, until the impact of 'cliff edge' points disincentivising investment is better understood.

5. **The £500k threshold is arbitrary – but we wouldn't' recommend concentrating the additional tax burden further.** Occupiers of high value properties don't necessarily have greater ability to pay. However, we wouldn't want the concentration of business rates burden on an already small number of ratepayers to go even further than what Government is currently suggesting. Properties above £500k rateable value represent around 1% of

hereditaments and already pay around 30% of all rates – it can't be right or sustainable to concentrate this even further.

6. **Fixing the tax rate would provide better certainty and predictability to business –** one of the drivers for making the lower tax rates for RHL businesses permanent was to provide more certainty around their tax bills. However, the tax rates for all business will still fluctuate according to relative changes in other property values, and by inflationary uplifts between revaluations. In order to provide better certainty and predictability to all businesses, the tax rate should be fixed – just like all other taxes.

Background – BPF's overarching recommendation for business rates reform

Our members invest in and develop all kinds of commercial real estate from offices, retail and logistics properties to data centres, lab space and medical premises. We recognise the importance of a fair and responsive property tax system – and we have long advocated for business rates reforms to place a **fairer tax burden** on business and **better support investment** in our buildings.

Our three longstanding recommendations for business rates reform are:

1. **The tax rate should be reduced and fixed (like all other taxes).**
    a. Tax on property in the UK is double the OECD average[1] – the current tax rate of 55% is wholly uncompetitive and places a large fixed cost on business before any profits have been made. The tax rate should be reduced to more competitive and sustainable levels – **for all property.**
    b. The tax rate (known as the multiplier) currently fluctuates according to changes in the total rateable value of all commercial property, and also with inflationary uplifts between revaluations. The tax rate should be fixed, as it is for all other taxes, to provide some predictability and certainty to businesses that their rate bills will adjust in direct proportion to their property value.

2. **Revaluations should take place more frequently – ideally annually.**
The current revaluation cycle of 3 years, plus the antecedent valuation period of 2 years, results in businesses paying rates bills at the end of valuation cycle based on valuations which are by then 5 years out of date. This is far too long in a rapidly changing economy – and will result in some business paying more than they can afford – and the Government not raising revenue from successful and growing sectors quickly enough. A sustainable tax system which places a fair burden on businesses should be based on more contemporary property valuations.

3. **Empty Property Relief (EPR) should be reformed to better reflect vacancy periods.**
Our research shows that it typically takes closer to 12 months to find a new occupier for an empty unit even in 'normal' market conditions – this shows that the current EPR of 3 months for retail and office properties is wholly inadequate. We recommend that EPR be extended to at least 6 months for all properties – followed by a 50% reduction in rates bills until the property is occupied.

[1] Tax on property | OECD