INSTITUTE OF REVENUES
RATING & VALUATION

Devolution of Business Rates to Wales

An Outline of the Institute of Revenues, Rating and Valuation's (IRRV) Evidence

The Enterprise and Business Committee of the National Assembly for Wales

9:30am until 10.15am on the 9th December 2015.

<u>The potential for changes to business rates policy</u>

Introduction

The IRRV is the professional body concerned with all aspects of local taxation, valuation, appeals, financial management and local benefits administration in the United Kingdom. It has members within both the public and private sectors, including ratepayers and their agents. Institute members are engaged in local taxation collection, property valuation, the appeals process, advising and representing ratepayers and financial management within local government.

We are an Institute that represents the professional interests of members who work within a broad church. The Institute is the only professional body in the United Kingdom which specialises in the law and practice of local authority revenues and local taxation, together with the valuations, appeals, reliefs and benefits which support these processes.

The approach taken to modelling the costs and economic benefits of business rates policy options

The Institute often models the impact of government policy and in recent months has looked critically at the government's proposals for 100% rate retention in England. This modelling approach takes account of the impact of rate liability and its effect on both the ratepayer and local economic conditions. This approach is partially helpful when dealing with issues such as;

local discretions, particularly those related to stimulation of the tax base, regeneration and local economic activity.

The likely timetable for any changes and how this will be communicated to businesses in Wales

Using our experience from England, it is important that business ratepayers are given a reasonable lead time in order to take into account of any adjustments in their outgoings. This is particularly important with rate liability because it is regarded by business as the most significant outgoing after all the costs of employment. We would therefore suggest that a lead in time of at least 12 months is essential to give business the opportunity to make these adjustments.

The potential for differential tax rates within Wales.

We believe the application of differential tax rates for rate liability would give local authorities and the Welsh Assembly Government the opportunity to introduce innovative approaches to encourage businesses to relocate in Wales. This will be particularly important if it were to be considered alongside any potential changes in the levels of Corporation Tax. This will also give a possible incentive for dealing with the porous nature of the border between England and Wales.

Local retention of business rates

The Institute has taken a positive stance on the introduction of business rates retention schemes. There is no doubt in our mind that it has encouraged billing authorities to take a more active role in the administration of the tax which has led to an increase in yield. The localisation mechanism and the potential to retain income have also begun to yield results particularly in relation to the funds available to improve the infrastructure in areas of economic decline such as the traditional high street.

The condition of the Rating List for Wales

We have carried out a study of the quality of rating lists in England and Scotland which has revealed a significant incidence of missing rateable value. This situation has been fuelled by the "nationalisation" of the non domestic rate in 1990 which led to billing authorities reducing the administrative effort in relation to the maintenance of the rating lists. We believe there is significant missing value in Wales.

The introduction of an incentive scheme to Billing Authorities in England was probably the most significant change to the non domestic rate since its inception in 1990. It introduced two major challenges to Billing Authorities (BAs), firstly it demanded improved budgetary forecasting in an area generally unfamiliar to finance managers, but it also gave financial encouragement to BAs to improve resource commitment to the rating team. In England this incentive has already realised over £50m of missing value

Rates Avoidance

The Institute fully supports the premise that clarification and/or change is required regarding aspects of empty business rating, both in terms of its application and its administration. The Institute also fully supports the Government commitment to "continue to support law abiding ratepayers who are genuinely entitled to the reliefs and exemptions". This support should apply to all who work by legal means to minimise business rates liability; and by extension it should not include those who adopt practices by which they seek to evade tax liability.

Tax avoidance is, of course, a strategy which involves exploiting legal means of reducing taxes with the goal of minimizing tax liability. Avoidance is a perfectly legal approach to handling taxes. There is a point at which practices of a minority stray into the realm of being abusive; and thereby cross the line into tax evasion. It is important to emphasise however that there is nothing illegal in seeking to minimise that tax liability, either for oneself or on the behalf of others. To state that avoidance places an unfair burden on the "honest majority" could be seen to portray those who seek to minimise liability legitimately as 'dishonest' and this is not the case.

It is felt that avoidance is "undermining confidence in the rates system". It could well be argued that the interaction of the empty property rating system as introduced from 2008, with the now high level of business rates multiplier are also contributory factors to any perceived undermining of confidence in the system.

The timetable for revaluations

One of the disadvantages of five yearly revaluations is that where there is a large swing in rental or capital values inter-quinquennium, this is not reflected until the following revaluation. Where rents and costs are increasing, the ratepayer is unlikely to be upset; however, where these values fall, dissatisfaction can arise (notwithstanding provisions relating to material change which may assist in these cases).

We contend that shorter periods between revaluations would be preferred by the majority of ratepayers as this would help to even out some of the changes in levels of value which can occur within the revaluation cycle.

The revaluation cycle has traditionally lent itself to a five-year valuation cycle, due in part to the timescale required to handle large volumes of appeals between revaluations.

It may assist ratepayers to move towards a three-yearly revaluation cycle; possibly as a stepping stone to annual or two-yearly revaluations. We accept however that these changes would probably only be achieved if all leases are supplied as a matter of course to the VOA (direct or via Land Registry). Such a move to more frequent revaluation would generally reduce the number of appeals, keep rateable values more aligned to passing rents and could negate any need for transitional relief schemes.

More frequent revaluations would generally result in a more acceptable change to rate poundage levels; thereby giving rateable occupiers a greater degree of certainty. Three-yearly revaluations could level out the appeal workload for rating surveyors, minimise increases / reductions in revaluation assessments for occupiers and allow the Government and billing authorities a greater degree of certainty of income level.

Any evidence to support the Minister's comment that the border between Wales and England is "long and porous"

The 160 mile border between Wales and England is often described as "porous". This is understandable. 90% of the Welsh population lives within 50 miles of the English border. 30% of the *combined* English and Welsh population—some 16 million people—live within 50 miles of the border. As a result, there is a huge degree of travel and integration between England and Wales throughout the year, be it commuters, business people, freight or leisure seekers.

The Welsh and English economies and geographies are highly integrated however this integration has not been fully researched in relation to variable tax regimes and the impact of any such variable regimes. An obvious example of this is the impact of the corporation tax regime in the Irish Republic in contrast with the higher tax levels in Northern Ireland. In response to this there are proposals to reduce the level of this burden in Northern Ireland in order to attract an increase in business activity.

In the context of non domestic rates would the introduction of variable local multipliers in Wales influence the relocation of business activity from England to Wales? If this is the case it raises the potential for increased revenue as the tax relationship between Wales and the Treasury matures.

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