IPTI Xtracts

Property Tax and Assessment News from Around the World

United Kingdom – April 2022

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HOW WOULD AN ONLINE SALES TAX WORK IN PRACTICE?

The government's consultation for an online sales tax is due to close on 20 May. John Webber, head of business rates at property consultancy Colliers, discusses what impact it could have on the retail sector if one is implemented.

Following last year's autumn Budget, the government published its final report into the review of business rates in October 2021.

Within the report, it states it will consider "the arguments for and against an online sales tax". A consultation was launched by the Treasury from 25 February until 20 May 2022, to look at how the tax could be managed and implemented, as well as the impact it will have on consumers and businesses. If implemented, an online sales tax would be used to fund reductions in the business rates for retailers with properties in England and to fund block grants for Wales, Scotland and Northern Ireland.

The consultation has been instigated following calls from the retail industry for a fairer playing field, and a tax system that does not penalise high street retailers, who pay business rates on their physical stores. Purely online rivals do not pay such a tax and are therefore able to undercut their bricks-and-mortar competitors.

An online tax seems to be a sensible solution for several reasons. The retail sector's high business rates have been cited as one of the key factors in shop failures and the decline of the high street in recent years. The British Retail Consortium (BRC) highlighted in its Retail, Rates and Recovery: How Business Rates Reform Can Maximise Retail's Role in Levelling Up report, published last September, that 83% of retailers said it is "likely", "very likely" or "certain" that they will close shops if the business rates burden is not reduced.

Office for National Statistics (ONS) data show physical retailers pay a disproportionate amount of the business rates burden, compared with other industries – between a quarter and a third (£7.26bn) of the total annual bill, despite the gross value added from retail being less than 10%. Of the total rates bill paid by the retail sector in 2018/19, 94% was funded by the high street and only 6% by online retailers.

This discrepancy is becoming even more marked as online shopping continues to increase in popularity - a trend that was exacerbated during the pandemic. A report by Edge by Ascential entitled Future Retail Disruption 2021-2022, published in November 2021, stated 32% of UK retail sales took place online, up from 29% in 2020 and 21% in 2019. Forecasts indicate that this could rise to 38% by 2026, so it seems reasonable that online retailers should share some of the tax burden.

The industry seems to be largely in agreement. Our recent snapshot survey, published in April 2022, shows that among Colliers' retail landlord and retail occupier clients, 89% of respondents said they would be in favour of the introduction of some form of online sales tax to take the pressure off business rates. Just 11% disagreed with the new tax. Interestingly, 71% of retailers who already have an online presence supported the new tax, and – unsurprisingly – 100% of those that do not have an online presence support one, too.

Of course, it is not all black and white, particularly as the distinction between online and high street becomes increasingly blurred. There are now many retailers who have both an online and a physical store presence, such as John Lewis and Next, which already pay high business rates on their stores. So if they were to pay taxes on online sales as well, this would significantly increase their bill. As one opponent to the new tax said in our survey, "retail needs less taxation than more", and another added, "adding another bad tax doesn't make things right".

There has also been an argument by Next, Asos and the BRC that introducing an online sales tax will only lead to etailers passing on additional costs to the consumer.

And there would be challenges for small retailers that moved and invested in online retail out of necessity during the pandemic. Some fear a new tax will stifle a burgeoning industry that is helping the economy recover from the effects of the pandemic.

Meanwhile, opinion was divided over click and collect. Of those surveyed, 54% said yes, online sales tax should be paid on these items, while 46% said no.

There are other issues to address, such as whether there should be exemptions to an online sales tax, or whether certain categories of retailer or sale should be subject to a reduction. When asked what should be exempt or pay a reduced tax, 71% of our survey respondents cited sales of essential items, 66% said small retailers, 55% said web-based apps in stores and 52% said digital products.

The government will need to carefully consider how to apportion the new tax in the fairest way.

Given the considerations highlighted above, we believe the ultimate impact on the retail sector will depend on exactly how exactly the government decides to impose the tax, how much it intends to raise from it, and what the monies raised are used for. To achieve a positive impact it is essential any new online tax revenue is used directly to alleviate the high business rates burden on retailers and does not just go into a government black hole, as many detractors of the scheme fear could happen.

For our part, we are also adamant that the introduction of any online sales tax must not divert the government's attention from the greater need: a fundamental overhaul of the current business rates system. Any new tax must go hand in hand with reform.

Colliers has been a long-term advocate of reform of the current outdated system and its disproportional reliance on bricks-and-mortar retail. We believe in a fundamental rebasing of the multiplier to around 30p in the pound, from current levels of more than 50p, which has made the tax so unmanageable for many ratepayers; a review of the outdated reliefs system; and more frequent (preferably annual) revaluations, so that business rates bills more accurately reflect current rental values – in the case of retail, considerably reducing rates bills.

REBASING THE MULTIPLIER

A property's business rates bill is calculated by multiplying its rateable value (RV) by the relevant multiplier (also known as the uniform business rate, UBR) – small business or standard – and applying any relevant reliefs. The small business rates multiplier is currently 49.9p for every £1 of rateable value, and applies to properties with RVs below £51,000. The standard multiplier for properties with an RV above £51,000 is 51.2p.

We also advocate the removal of downwards transition, so that following the next revaluation, business rates reductions are implemented immediately rather than spreading them over the years of the list in a transitional arrangement, as they did following the last list revaluation in 2017. This meant many businesses in these sectors paid too high business rates for too long and this was a key factor in the demise of brands such as Laura Ashley and others on the high street. This had a major detrimental impact on the high streets of many of the UK's provincial and poorer towns. It must not be allowed to happen again.

Introducing an online sales tax will not solve all the issues facing the high street and there are several grey areas as our survey shows. But it is a step in the right direction, provided it is properly thought through and is not imposed in isolation. It should be part of creating a much fairer and more balanced system, enabling 21st century retail in all its forms to thrive.

BUILDING BACK BETTER

Drapers' Reset Fashion Retail campaign is supporting the industry to recover in three areas:

- Business rate reform
- Retail property leasing terms
- High street regeneration

LOOKERS GIVES BACK £4M IN FURLOUGH CASH

Record profits at Lookers have prompted the car dealer group to return £4 million of furlough support, although its reinstated dividend is almost equal to the amount of business rates relief that it received last year.

Lookers has made its best profits as a lack of new cars, because of global shortages of microchips, and pent-up demand from people wary of public transport have resulted in significantly higher car prices. Cost-cutting, including the closure of 27 showrooms and 1,500 redundancies during the pandemic, also has led to higher margins.

Lookers unveiled a pre-tax profit of £90 million for the year to the end of December compared with one of £1.5 million a year earlier and a £45 million loss the year before, when it admitted that it had overstated its profits for three years. Sales rose by 9 per cent to £4.05 billion last year from £3.69 billion in 2020.

Mark Raban, its chief executive, said: "It's been a difficult couple of years for the company with Covid and with our own issues, but we are moving forward with pace."

Lookers is one of the largest British car retailers, with 6,500 employees. Two years ago it was engulfed in an accounting crisis and it came under criminal investigation for fraud and regulatory inquiries into mis-selling.

Raban, 55, an industry veteran, joined the business as finance chief before being promoted to chief executive in February 2020, four months before a boardroom clearout. The company's fortunes turned in late January after Constellation Automotive, the owner of webuyanycar.com, bought a stake of nearly 20 per cent, which sent its shares soaring amid takeover speculation.

The Lookers boss said he was "proud and delighted" to have returned £4.1 million of furlough support that the group had received in the first half of last year and justified not returning £9.8 million of business rates relief because it "wasn't support we claimed for, it was just applied by councils. We were closed for the first quarter and we weren't designated essential retail so we think it's bona fide."

Lookers claimed £45 million from the government in 2020 but has since emerged from the pandemic in a much stronger position, as have Vertu and Pendragon, its dealership peers. It said its improved financial performance meant it was debt-free and it awarded investors a 2.5p-a-share dividend, equivalent to a £9.3 million payout.

Analysts at Peel Hunt said: "The dividend has been reinstated, the balance sheet is materially stronger than pre-Covid 19 and current trading conditions remain solid, with underlying profit ahead of the exceptionally strong prior year."

Raban said that Lookers' new strategy was paying off and that its investment in a cosmetic repair business, which fixes alloy wheels, small dents and scuffed bumpers, would continue to be lucrative even as the automotive industry moved towards electric cars. It is also adding two new five-acre second-hand car sites as part of its Cube Concept, which will include cafés on the premises.

The business warned that it was continuing to face shortages of new cars, with Raban saying that the war in Ukraine was likely to exacerbate the issue because a lot of electrocomponents and vehicle wiring was produced there. Drivers are waiting from six months to a year for new cars, while the industry is about 500,000 vehicles short of normal levels, meaning that the price of new cars has risen by about 15 per cent. Shares in Lookers fell by 4p, or 4.2 per cent, to 92p, valuing the company at about £376 million.

TAX ON HOMES TO LET IS 'HARD TO IMPLEMENT, NOT COST EFFECTIVE'

Tax experts say that an attempt to levy higher purchase tax on holiday lets and second homes in one part of the UK could backfire and may not even work.

The Chartered Institute of Taxation is commenting on the Welsh Government's proposal for its version of stamp duty - Land Transaction Tax - to be increased sharply in different localities as a disincentive to the purchase of second homes and short-term holiday lets. This would be in addition to the current extra council tax charge on such properties.

The CIOT says it is likely to be harder to implement and less effective to use a transaction tax for this purpose than using a recurring tax based on ongoing occupation, such as council tax.

The Welsh Government is concerned about the impact of second homes and short-term holiday lets on the affordability and availability of housing for people who permanently live in the area, or wish to continue to do so – particularly young people.

The Welsh Government will introduce legislation to increase council tax on second homes and long-term empty properties to 300 per cent, effective from April 2023.

However, the Welsh Government also suggests higher LTT rates varied locally or regionally might act as an extra disincentive and thereby reduce the number of future purchases of residential properties as second homes and holiday lets.

The aim of the proposed LTT policy is not to increase revenues, the Welsh Government says.

Higher rates) of LTT are already in place (subject to exemptions) when a company purchases a residential property, or an individual purchases a dwelling and they, or certain related persons, already own another. These higher rates increased to an additional four percentage points in December 2020. Local variation in LTT as proposed would be on top of all this.

Lakshmi Narain, chair of CIOT's Welsh Technical Committee, says: "The Welsh Government may find that a second home supplement on council tax is less problematic than one on a transaction tax such as LTT.

"Producing a workable test on what a buyer intends to do with a second home will be difficult and unsatisfactory. The buyer's intentions may not be fully formed at the date of purchase, and what happens if the intention changes?

"There are also widely recognised economic arguments that transaction taxes such as LTT disincentivise people from moving house, reducing the tax take and reducing mobility. While the tax is levied on the purchase, much of the real economic burden falls on the seller who wishes to move.

"Reducing the availability of short-term holiday lets may also impact local tourism economies, employment opportunities etc. The interaction with any tourism levy will need careful consideration."

He adds that applying additional rates based on local areas could create boundary issues and local anomalies. On the other hand, rates set on the basis of local authority areas – some of which are huge – would not allow for specific targeting of communities. To be effective, there will be a need for a regular appraisal of the criteria used for determining properties within the scope of the scheme.

He continues: "A system of charging local rates of LTT in addition to the existing national rates would add significant complexity to the administration of LTT and to the conveyancing process in terms of how and when it will apply, with different rates in specific areas and on different types of usage, as well as complicating how such a system will be managed and enforced.

"In areas where additional LTT rates are introduced, an early and comprehensive public awareness campaign is essential for taxpayers, conveyancers and estate agents in the areas concerned.

"Clearly, if a cost-effective system cannot be designed to administer a localised system of different rates, then that strongly calls into question whether localised rates are sensible in the first place."

EXCLUSIVE: HUGE RATES HIKE FOR LOGISTICS WAREHOUSES AS AMAZON BILL TO RISE MORE THAN £1M

Occupiers of logistic warehouses are braced for a dramatic rates hike, data shared exclusively with CityA.M. has revealed.

With e-commerce firms desperate to grab space, rents in the industrial and logistics sector have shot up.

Rental growth means will see average increases of 18.7 per cent across the board on business rates payable from April 2023, according to a forecast by Colliers.

Rates in the capital city are set to rise on average by 50.2 per cent following the next revaluation, with the South West of England seeing rises of 32.5 per cent and the South East 30.6 per cent.

A unit in London, with a current rateable value (RV) of around £500,000 will find its rates bill rise from £266,000 a year to £399,630 a year, following the revaluation.

Colliers estimated that Amazon's biggest distribution centre in Tilbury, which currently pays an annual rates bill of around £3.625m will see its annual bill rise to £4.745m. This represents an increase of 30 per cent.

John Webber, head of business rates at Colliers, said "For those occupying a large number of properties in the sector, such as Amazon or even retailers such as Next or John Lewis, these rises will mount up, particularly for operators who have prime sites in London and the South East and those in the South West. This will have a significant impact on their overheads from 2023 onwards.

"We are advising our clients to fully understand the likely impact of the 2023 business rates revaluation and to prepare now to avoid any unexpected cost increases."

THE FUTURE OF LAND VALUE CAPTURE

Secretary of State Michael Gove has argued that the public purse should capture a bigger proportion of the uplift in land value generated by a planning permission. More recently the Housing Minister Christopher Pincher, when asked a question about using land value capture to fund affordable housing in recent evidence to the House of Lords, commented ominously, 'watch this space'.

Land value capture is not a new idea – in 1909 Winston Churchill gave a series of speeches on the budget in the run-up to the general election to promote the creation of a land value tax. He said, "Roads are made, streets are made, railway services are improved … water is brought from reservoirs a hundred miles off in the mountains – and all the while the landlord sits still… To not one of these improvements does the land monopolist as a land monopolist contribute, and yet by every one of them the value of his land is sensibly enhanced."

Land value capture is in fact common elsewhere in the world and already exists within our own planning system, through S106 agreements, Community Infrastructure Levy (CIL) and affordable housing provision. It should be remembered that mechanisms such as capital gains tax, stamp duty and business rates also, in effect, capture land value increases.

While it seems likely that some form of land value capture will be introduced by this Government, it is unclear at this time what form this would take, or whether this would be administered locally, or nationally.

What we do know is that the Government's previous Planning for the Future White Paper proposed to replace CIL with a Government-set, flat rate charge, which would be levied on the completion of a scheme, rather than on commencement of development. This new levy was intended to remove S106 agreements all together.

However, in July last year the Government declared that it would no longer be pursuing its national levy proposal, which would instead be replaced with locally-set levies. Again, these are intended to replace S106 agreements. Locally set levies are in fact what we currently have with CIL.

Given the scope for change, we could end up with a proposal ranging from something that is much the same as our current CIL arrangements to something far more radical, such as the creation of a new land value tax, payable after planning permission is granted.

In the first scenario, we may end up with a new local levy to replace CIL and S106 agreements. There are a number of impacts that need to be considered here:

- Without S106 agreements, an element of flexibility within the planning system will be lost. S106 agreements allow contributions and obligations to be negotiated with a local authority, taking into account the special circumstances of each development proposal and its viability. Relying on a flat levy would limit the ability for changes to scheme viability to be taken into account.
- Conversely, it is argued by others that S106 agreements allow too much flexibility for developments. This has the effect of weakening the negotiation of contributions with developers; and thereby encouraging developers to overpay for land, which reduces the value captured for the local community.
- Often local communities are suspicious of how S106 agreements are reached; with prevailing views that S106 agreements are agreed with developers behind closed doors, with there being little to no scrutiny from the local community.

The replacement of CIL may be no bad thing. In its original form, CIL was proposed to be a straightforward and simple levy that would allow developers to understand upfront what the infrastructure costs would likely be for a site. However, CIL became too complex, through the introduction of exemptions and exceptions to certain development uses. Furthermore, in practice CIL simply did not yield enough funds to pay for the authority's infrastructure needs. CIL also does not work well for larger strategic sites, particularly around ensuring that onsite infrastructure provided by the LPA is delivered in step with the development. For example, Boyer is currently progressing a new community of 2,000 homes at Orchard Grove in Taunton. The Council's CIL 123 list identified the infrastructure items that CIL could pay for in the District (and by implication the infrastructure that could not form part of a s106 agreement.) Education was listed as a CIL item, and as such the provision of the new primary school on our site could only be delivered via CIL payments. As a consequence, to deliver the school the county council was dependent on the district providing them with sufficient CIL receipts; the district was dependent on enough CIL monies being available in the district's CIL pot; and the developer was dependent on this process happening expeditiously and in step with the delivery of the new homes.

In the second more radical scenario – to create a new land value tax, the following impacts should be considered:

- The introduction of any new tax would need cross party support. Otherwise, some landowners may simply sit and wait for a change of Government before bringing forward land for development, in the belief that a different government might repeal any new legislation allowing a greater future land price to be secured.
- Depending on the level of taxation, the higher the rate, the greater the likelihood that it will stymy the speculative land market.
- Often there is a lack of relevant expertise or resource within local authorities to effectively negotiate with developers on the administer CIL. Under investment in local planning authorities over the last 10 years will not help the administration of any new levy or tax charge.
- The financial benefit of any change may take some time to filter though, as a great deal of land around existing settlements is already tied up under option agreements with developers. Under an option agreement, landowners typically agree to sell to a developer at a discount of market value. If a developer is taxed at the point of development, this discount would distort the value of the land – and so reduce the quantum of land value capture that could be achieved.
- Again part of the problem with this likely change is local authority resourcing. Local authorities have already made the point that they lack the expertise to administer land value capture which can be very nuanced.
- An alternative is to have a standard rate, but this seems unlikely to work because of the considerable variety of land values across the country. The benefits of CIL are also based on geography, with a number of northern local authorities refusing to implement CIL – as it costs the authorities more to run and administer the CIL, than the levy brings in.

The major benefit advocated for land value capture taxes is the ability to tax the landowner on the sale of the land, which would untangle a developer from lengthy negotiations on S106 financial contributions with the local authority; and would help the authority ensure that the maximum value can be extracted for the benefit of the community at the beginning of the process. This could help bring more certainty into the development process.

Lawrence Turner, Associate Director, Boyer Bristol

COUNCIL TAX INCREASE: MAP SHOWS AREAS WITH HIGHEST BILLS IN ENGLAND

Council tax has risen across England this week, with the average band D property hit with a £63 annual increase in their annual bill to £1,966 – a hike of 3.5%.

The tax rise adds to the current cost-of-living crunch, coming at the same time as energy prices rise for millions of households.

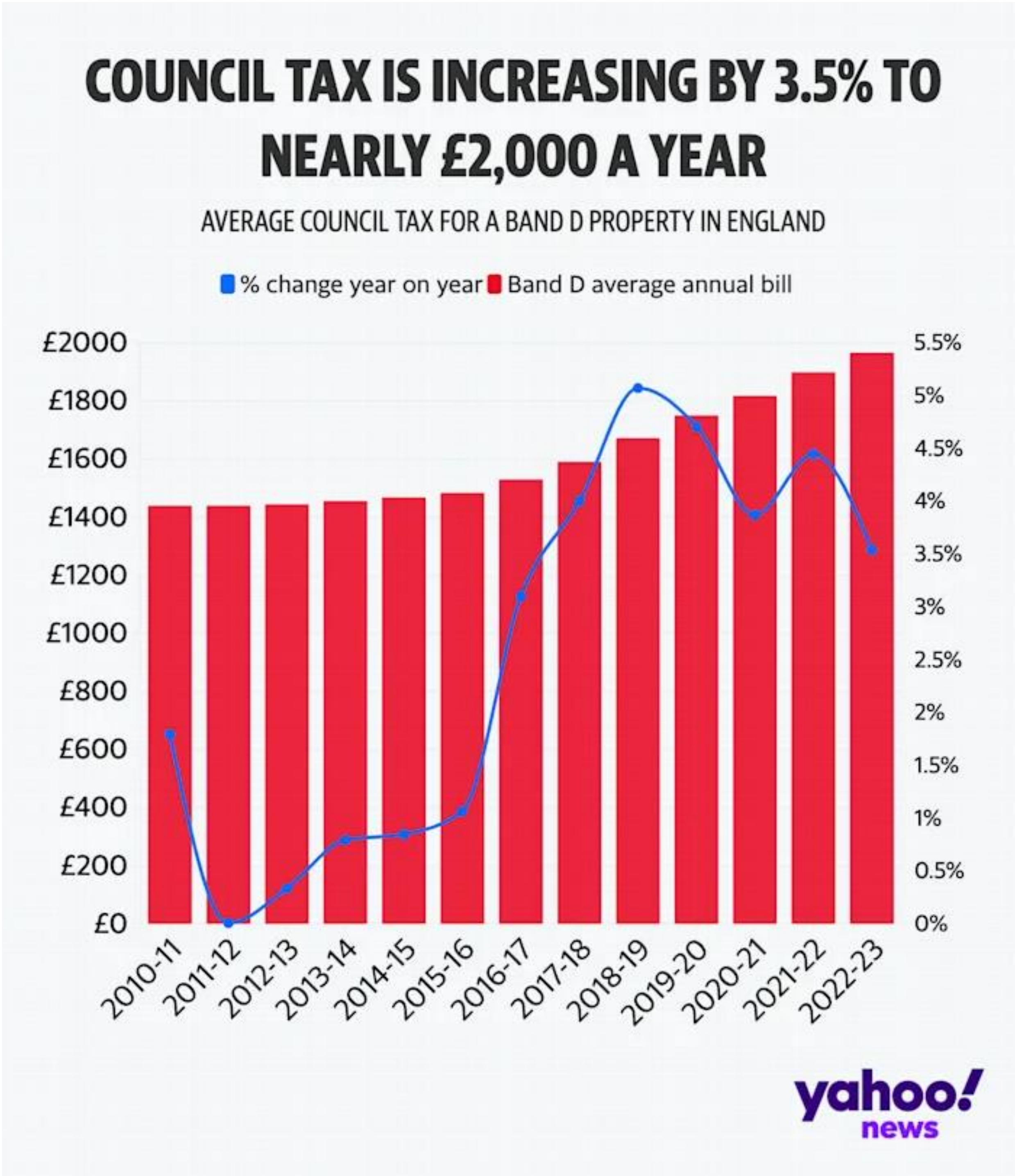
The new Ofgem price cap kicked in on 1 April, pushing the typical household annual bill up by £693 from £1,277 to £1,971.

Spiking bills and soaring inflation mean households are facing the biggest drop to their disposable income since the 1950s.

In a bid to tackle spiralling fuel bills, Rishi Sunak announced in February that all households in bands A-D would receive a £150 council tax rebate.

Properties in England are put into one of eight council tax bands (A-H) depending on how much they were worth in the year 1991.

Figures released this week by the department for levelling up, housing and communities show how much each of England's local authorities is charging for 2022/23, and how much the tax is increasing in each area. The figures refer to band D properties – the standard for measuring the tax.



Council tax has risen by 3.5% for the average Band D property

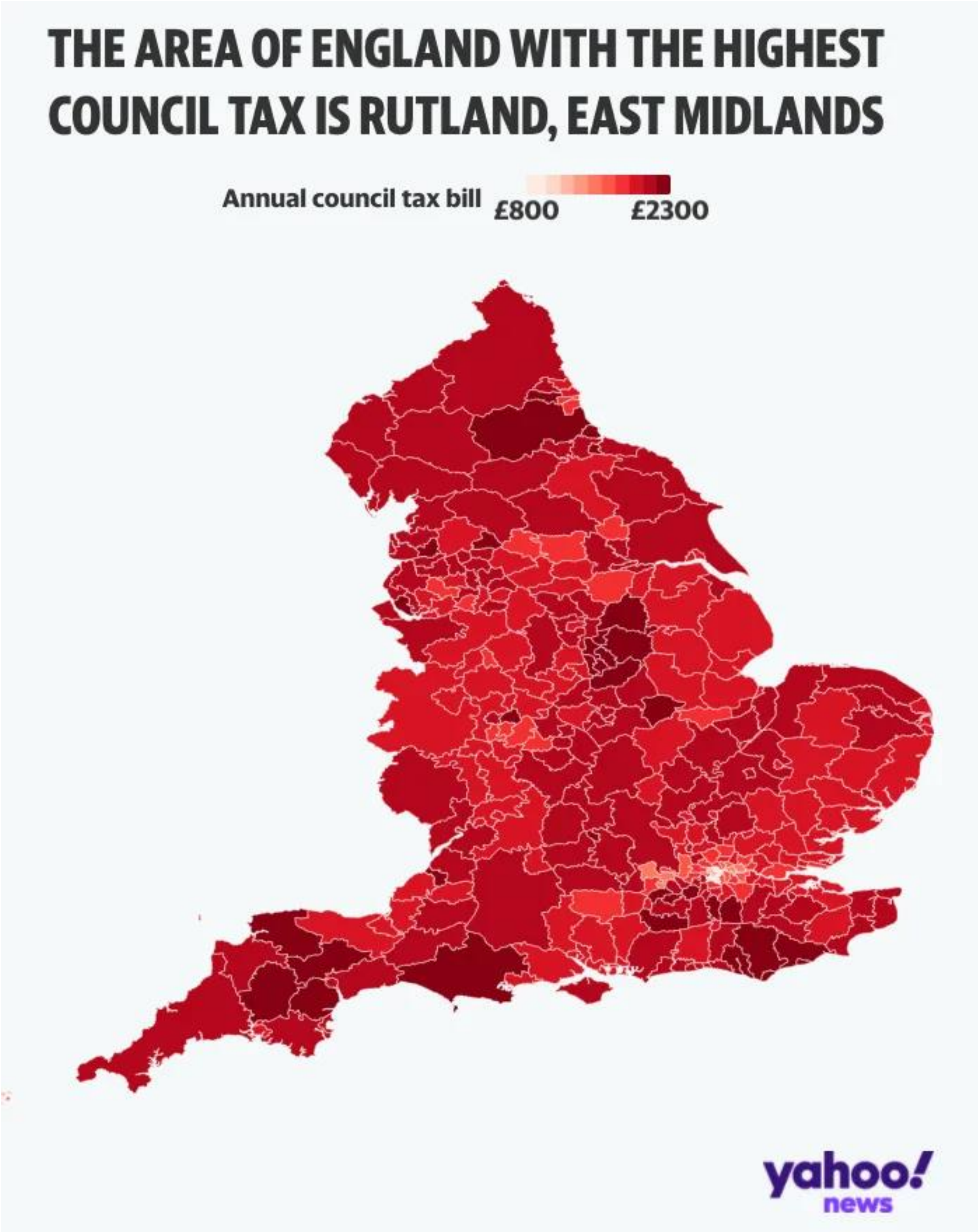
Council tax has risen every year in England since 2010/11.

In 2010/11, the average annual council tax bill for a band D property was £1,439.

The biggest annual hike to council tax in the last decade came in 2018/19, when the average bill rose by more than 5%.

Which areas have the highest council tax?
The area of England with the highest council tax is Rutland, East Midlands, where band D properties pay £2,300 a year.

Westminster in central London has the lowest rates, at £866 a year.



Rutland in the East Midlands has the highest council tax rates in England

The 10 local authority areas with the highest council tax:

Rutland - £2,300

Nottingham - £2,294

Dorset - £2,290

Lewes - £2,281

Wealden - £2,252

Newark and Sherwood - £2,252

West Devon - £2,231

Bristol - £2,230

Oxford - £2,225

Hastings - £2,219

The 10 local authority areas with the lowest council tax:

Hillingdon - £1,659

Southwark - £1,595

Newham - £1,532

Windsor and Maidenhead - £1,523

Tower Hamlets - £1,520

Kensington and Chelsea - £1,382

Hammersmith and Fulham - £1,228

City of London - £1,075

Wandsworth - £873

Westminster - £866

Council tax bills are made up of several elements. In additional to tax paid to the council itself, bills cover payments to bodies such as county councils, fire and rescue authorities, police and crime commissioners, and parish councils.

Compared to the rest of the country, London is an area of relatively low council tax.

Eleven of the 13 authorities that charge less than £1,700 in council tax are in the capital. The other two are Windsor and Maidenhead, and the Isles of Scilly.

Where is council tax going up most?

As well as having the highest council tax, Rutland is also seeing the largest overall rise in 2022/23, with band D bills increasing by £105 – wiping out most of the benefit from the chancellor's £150 rebate.

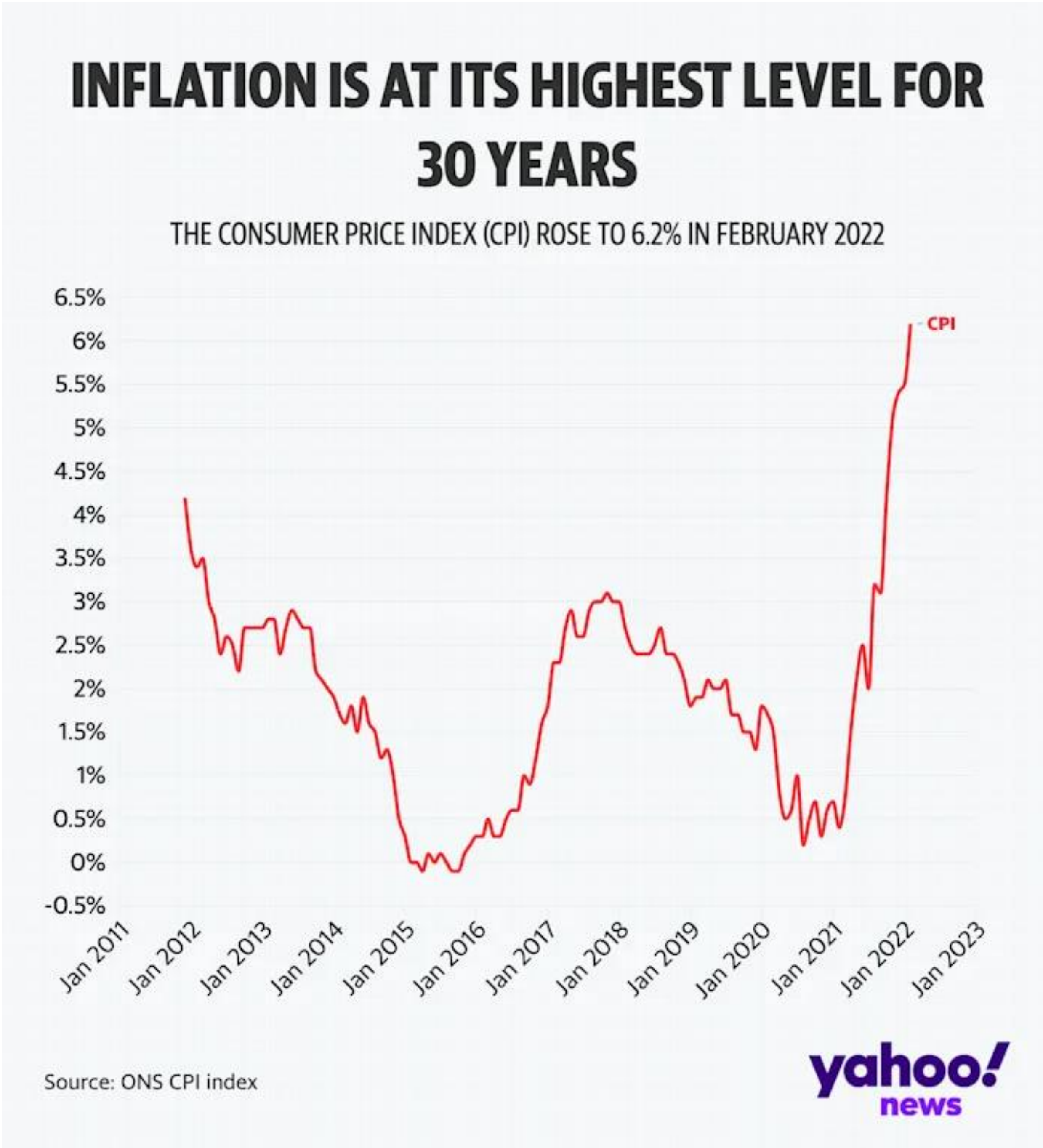
Ninety-one of England's 309 local authorities will see a council tax hike of more than £75.

Sandwell in the West Midlands has the highest proportional increase, with council tax rising by 5.2% from £1,742 to £1,831.

Cost of living crisis

Rising council tax bills make up just one part of the UK's current cost of living crisis.

Inflation has risen to levels not seen in decades, largely driven by the spike in energy bills.



Inflation has hit levels not seen in the UK for decades

Food and groceries have also soared in cost.

Senior economists have warned Sunak's current portfolio of measures to tackle the crisis will leave the poorest, out-of-work households the worst off.

Torsten Bell, chief executive of the Resolution Foundation think tank, told MPs this week: “It is an odd choice to have offered basically next to nothing to those households in this spring statement.

“I didn’t think [Sunak] would do that and I was wrong.”

The Resolution Foundation has calculated that the cost of living crisis will push 1.3 million households into absolute poverty.

SCOTLAND - RETAILERS DEMAND ACTION TO LOWER SCOTTISH BUSINESS RATES BURDEN

SCOTTISH retailers have called for ministers to permanently lower the burden of business rates north the Border as the property tax is reinstated after being eased to help firms deal with Covid lockdowns.

Firms across Scotland’s retail, hospitality and leisure sectors were fully exempt from non-domestic rates for the financial year that ended yesterday (March 31) as part of ongoing support provided to business by the Scottish Government throughout the pandemic. From today, firms in those sectors will receive 50 per cent relief from rates, worth up to £27,500 per business, for a further three months.

However the poundage – the figure multiplied by the value of a non-domestic property to calculate its rates bill – will rise in Scotland to 49.8p in the pound, the joint-highest level since devolution began in 1999.

Today also sees the reintroduction of the higher property rate surtax in Scotland. Nearly 3,000 retail premises in Scotland fall into the scope of the surtax, which lifts the level of rates to 52.4p in the pound. This contrasts with England, where effectively the surtax is not as high. Rates are calculated in England using a standard poundage or multiplier of 51.2p in the pound, and a slightly lower one of 49.9p in the pound for small businesses.

With footfall on high streets and shopping centres yet to recover to pre-pandemic levels, one in six retail premises in Scotland lying vacant, and many companies still struggling to pay back debts incurred because of the pandemic, the Scottish Retail Consortium contends that business rates are being re-applied at a challenging time for shops. It has urged the Scottish Government to put the rating system on a “more financially sustainable basis” and to ensure firms north of the Border are not faced with bills that are higher than those levied on their counterparts in England.

David Lonsdale, director of the SRC, said: “The business rates waiver over the past two years of the pandemic has been substantial and much needed. It helped keep retailers afloat at a time when large swathes of the sector were forcibly shuttered for at least 220 days, when trading and capacity restrictions applied when shops were permitted to trade, and helped fund retailers' outlays on PPE and Covid safety mitigations.

"As the guardrails of taxpayer support are withdrawn, retailers are ready to contribute their fair share. However, shopper footfall and retailers' revenues are yet to climb back to pre-pandemic levels and firms are beginning to pay down Covid loans and tax deferral schemes.

"Coupled with the multitude of other government and supply-chain costs which are currently rising, the reinstatement of rates at an onerous 23-year high comes at a challenging time for the industry and retail destinations.

"That's why we want to see a medium-term plan for lowering the rates burden permanently and putting it on a more financially sustainable basis, coupled with early moves to restore the level playing field with England on the higher property rate supplement so that all premises in Scotland benefit from having the most competitive business rates in the UK."

The SRC said that retailers account for around one-quarter of the estimated 12,000 commercial premises in Scotland that attract the higher property rate surtax. It notes that the Barclay review of business rates, led by Ken Barclay, former chairman of Royal Bank of Scotland in Scotland, published in 2017, had called for parity on the surtax between Scotland and England to be restored by 2020.

According to the SRC, the Scottish Government has said it aims to restore parity on the surtax by the end of the current Scottish Parliament.

While relief in Scotland for firms in the retail, hospitality and leisure is in place for three months, in England there will be 50% relief on bills in those sectors for the full 2022/23 financial year, capped at £110,000 per business.

WALES - WELSH GOVERNMENT CONTINUE TO EXAMINE LAND TAX EVIDENCE – AS MINISTER CHALLENGED OVER TIME TAKEN FOR NDR REFORM

Welsh Government will examine how a 'land tax' to replace business rates could work in practice, and produce a 'potential road map for implementation'.

Minister for Finance and Local Government, Rebecca Evans MS, gave the update on planned business rates reforms, "Non-domestic rates have been an important part of the local government finance system for more than 30 years. Ensuring vital revenue is collected to fund local services that we all use and securing a fair and sustainable contribution from businesses has always been a challenging balance to achieve. This is a constantly evolving situation and the Welsh Government recognises the need to review and adapt local taxation policy to meet existing and emerging challenges."

Following the preamble the Minister went on to detail a 'programme of non-domestic rates reform that will be delivered over the next four years', "One significant area for change is the revaluation cycle. We have listened to calls from stakeholders for more frequent revaluations, ensuring the tax base reflects the economic conditions and environment in which businesses are operating. We continue to explore how frequently revaluations should and could practically be delivered for Wales, taking advantage of opportunities presented by Wales's unique tax base."

"Non-domestic properties across Wales are currently being reassessed for the revaluation that takes effect from 1 April 2023, and will reflect the impact of the pandemic on our tax base. We aim to bring forward legislation to move towards a three-yearly revaluation cycle, in line with other parts of the UK, and are exploring options for shorter revaluation cycles. This includes exploring the potential for reducing the gap between the valuation date and a new rating list coming into effect."

"A key requirement for more frequent revaluations will be the need to review and potentially further reform the appeals process in Wales. We'll be taking initial steps to improve the current appeals process for April 2023, with further reform to support more frequent revaluation cycles in the future."

Another key area under review is rates relief schemes, with the Minister detailing, "Rates relief has played a crucial role in supporting businesses throughout the pandemic and the overall level of relief provided to ratepayers has grown significantly in recent years. But now is the time to step back and review all of our current schemes to ensure they're fit for purpose and delivering support in the most effective way. Our review will consider the range of reliefs, the level of support, how reliefs are targeted and how long they last."

Finally the Minister detailed fraud and avoidance within the local taxation system, with clamp downs on 'repeated cycles of rate relief' and where rules have been changed over zero-rating for empty properties to allow local authorities to grant zero-rating only in cases where a charity genuinely needs to own or lease an empty building.

Looking forward the Minister said, "The Local Government and Elections (Wales) Act 2021 provides councils with strengthened powers of investigation, including the ability to undertake property inspections and to request information from ratepayers and others. The Act also paves the way for a new duty on ratepayers to notify councils of changes in circumstances, something required of taxpayers under other tax regimes. I intend to bring forward regulations for April 2023. Our ambition to tackle fraud and avoidance remains strong and we will pursue further changes this Senedd term."

Land tax to replace business rates appears still on the agenda, with the Minister saying, "Some options for reform remain priorities for the longer term. We continue to explore the potential for a land value tax as a replacement for non-domestic rates, building on Bangor University's detailed technical assessment last term. Over the next four years, we will move forward with the findings from this report, drawing on a wide range of expertise to develop a clear understanding of what such a significant change would look like for Wales and how it could work in practice. This analysis will include a potential road map for implementation."

North Wales regional MS Sam Rowlands was critical of the update, "When seeing this item on the agenda today, I was looking forward to seeing the Minister bring forward some true reform, and it's clearly needed in this area, but I am disappointed, Minister, I must say, at the lack of detail within today's statement."

"99 per cent of those businesses who see business rates as the biggest issue facing them, they would like to know what it is you are actually doing and what you will do, and how people and businesses will benefit from this reform. I just don't get an idea today, from what you've shared, as to what you see the key issues are and what you see the solutions are to resolving them as a Government."

"In your statement, Minister, you also suggest that this piece of work could take four years. I'd really be interested to understand why you think it's going to take so long for this reform to take place."

The Minister replied, "In regard to the comments made about the level of tax paid here in Wales, I'm open to having all kinds of discussions, but I do think that if there is a call to just do away with business rates completely then I think that it does come with an encumbrance to provide detail as to how you would raise £1.1 billion to fund local government and police services. I don't think that it is a reasonable thing to ask for them to be scrapped without being able to come forward with ideas as to how other funding could be raised. And it's important to recognise as well that every single penny of non-domestic rates is reinvested in local authorities. It just goes back to local authorities to help fund those local services."

"We do recognise the pressure that it does put on businesses, which is why we've provided over £620 million of rate relief to ratepayers in Wales this year, of course fully funded by Welsh Government, which is different to the situation across the border in England. And also we need to remember that three quarters of ratepayers across Wales are receiving rate relief this year. That's more than 70,000 businesses paying no rates at all. And I think also we need to recognise that the tax base here in Wales is different to that in England. The average rateable value in Wales is around £19,000—in England, it's around £32,000—and so it is right that our rates system and the reliefs attached to them do reflect the unique circumstances that we do have here in Wales".

More detail on the Land Tax idea was given by the Minister, "I did publish a very, very detailed report provided by Bangor University in March of 2020. I appreciate the Member wasn't in the Senedd at that point, but I'm happy to recirculate it to colleagues. The objective really of us exploring a land value tax as a replacement for either one or both of the local taxes is primarily to raise stable revenue for local services in the fairest way possible whilst obviously looking for other advantageous outcomes where possible. Bangor University did conclude that a local LVT could raise sufficient revenues to replace the current local taxes, and the distribution of liability could be more progressive, and significantly so, than the existing local tax regime. But it also highlights areas of future work that we would need to do to assess more fully whether it would be evidently better than our existing arrangements, and that's the kind of work that we need to be taking forward as we move forward with this important agenda."