London Forum response to the call for evidence on the fundamental review of the business rates system

~~Draft of 30 September 2020~~

Business Rates Review 2020

In the 2020 Budget, the government published terms of reference for a fundamental review of the business rates system. In response to COVID-19, it announced a business rates holiday for retail, hospitality and leisure businesses until March 2021. A revaluation of business properties had been planned for 2021, but in consideration of the impacts of the pandemic, in May, it announced that this will be delayed to 2023.

The following comments are put forward by the London Forum of Civic and Amenity Societies, a charity established by the Civic Trust in 1988 to network, support, inform and represent over 120 civic societies and community groups in London.

Many of our current concerns arise from the compromised state and prospects of many local high streets in London. A survey in July this year among member societies indicated that although London High Streets were coming back to life, on average 7% of outlets were vacant and 10-15% occupied but closed. Inner London shopping areas tended to have more closed outlets than outer London.

London Forum High Streets Survey July 2020

Responses – geog spread, range 21-421 outlets, mid 71

	Central	SW	SE	NE	NE	Total
Inner		4	1	4	3	12
Outer		12	3	3	3	21
Total	4	16	4	7	6	37

Survey Results – typical High Street comprises

	% of outlets	Outliers - %
Shops	57	Westcombe 79 Fulham 77 Marchmont St 21 Carshalton 22
Financial Serv	8	Highgate 43 Brixton 18 Amwell St 0 Archway Road 0
Restaurants	23	Bermondsey St 48 Exmouth Market 47 Centre Court Wimbledon 5 St John's Wood 11
Vacant	7	Peckham Rye Lane 19 Centre Court Wimbledon 16 Other Wimbledon 0 Dulwich 0

Survey Results – % closed typically

	%	Outliers - %
Shops	11	Wimbledon 0 Carshalton 0 Amwell St 40 Angel 30
Financial Serv	0	Teddington 43
Restaurants	14	Dulwich 0 Morden 0 Amwell St 50 Marchmont St 46

This response responds only to questions where the London Forum has a view.

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

London Forum believes business rates as currently structured are a damaging and distorting tax which inhibit investment and business growth. We see merit in proposals for a land value tax to be levied on commercial landowners as described here https://d3n8a8pro7vhmx.cloudfront.net/libdems/pages/43650/attachments/original/1535560302/Business_Rates.pdf?1535560302

This could be deployed alongside a lower business rate levy, or business rates could be entirely replaced to encourage needed investment and innovation.

4.1 Q10 What are your views on the frequency of valuations and what changes should be made to support your preferred frequency?

In the short term the business rates system will perforce be retained and a re-valuation would be welcome to many. However, we believe that the proposed new AVD of April 2021 will be too soon to reflect the impact of COVID on business rental values. In particular any post-COVID financial shakeout in retail is likely to have been delayed by the business rates holiday currently due to end in March 2021. An AVD of April 2022 would be more effective.

3.1 Q1 How well do current reliefs and exemptions deliver their intended outcomes and satisfy the principles of good tax design? What changes would you suggest to the system?

London Forum believes that many of the stresses in the business rates system could be removed if the multiplier were lower. Any tax rate above about 20% (from VAT experience) tends to trigger avoidance and clamour for exemption or concessionary rates. The current 50p business rate multiplier is damagingly high. A lower rate would:

- Provoke less clamour (and provide less justification) for reliefs.
- provide less incentive for avoidance.
- Enable the tax net to be extended to include historic exemptions.

And as a result, the system would be more universal, fairer and as a result less controversial.

Taxes on land values, on the other hand, are generally not distortive and so higher rates than 20% measured against land values would be acceptable.

3.2 Q7 How could the multiplier be set in future to ensure the sustainability of public finances and support growth and productivity? What would the impact of any proposed changes be on the level of the multiplier and revenue from business rates over time?

London Forum believes that business rates as currently structured are a distorting and damaging tax, so a lower multiplier would be a welcome move to reduce distortions and damage.

We believe that if business rates are to be continued, then a 20p multiplier should be the goal.

Based on the figures provided in the consultation document, the total potential tax take from business rates at the current 50p multiplier is £32bn. (50p in the pound on a total rateable value of £64bn.) It looks as if current reliefs and discounts result in a loss of around £8bn tax revenue. After reliefs and discounts the total potential business rates tax take is therefore reduced from £32bn to £24bn.

The £8bn estimate is made up of two elements: the tax take foregone as a result of reliefs and as a result of the retail discount. The paper provides a figure of just over £4bn tax revenue foregone as a result of reliefs. Turning to the retail discount, the paper says that the total rateable value of the retail sector is around 25% of the total £64bn, ie £16bn. The 50% retail discount on 50p multiplier on £16bn means £4bn tax revenue foregone as a result of this discount.

We would argue that the reliefs and discounts make the business rate system even more distorting than it need be and that it would be better to remove the reliefs and discounts and use the head room to lower the multiplier. We estimate that the £8bn extra revenue from removing the reliefs and discounts could enable the multiplier to be dropped from around 50p to around 37p (37p on a total RV of £64bn = £24bn). This would be a significant step in the right direction.

The reliefs and discounts to be withdrawn over time, with protections and transitional relief, should include:

- Charity relief
- Small business relief
- Empty property relief
- The retail discount

Further, over time the current exemptions should be unwound, including establishments for disabled training and welfare, agricultural buildings and churches.

Of course, radical changes such as these would need to be phased in and protection given where necessary to avoid unwelcome and unfair short term effects.

A short-term post-COVID discount could most usefully be focused on city and town centres, in order to help their revival.