UNITED KINGDOM ● What’s Inside – July 2013

- Sir Philip Green calls for business rates overhaul
- Alliance Boots, Tesco and Marks & Spencer to give evidence to the retail inquiry
- Retail finance directors to hold business rates summit
- Scrap business rates on public toilets, says MP
- FSB calls for radical overhaul of business rates system
- Business rates income could be at risk
- Court winds up rate avoidance charity
- Online retailers attack plans for sales tax
- Bailiff visits rocket as retailers struggle to pay business rates
- Hammerson boss David Atkins calls for review of 'crazy and outdated' rates system
- Property industry attacks Government's planned empty rates relief
- Business rates bombshell for charities: organisations that have been exempt from fees are told they will have to pay up from next year

**SIR PHILIP GREEN CALLS FOR BUSINESS RATES OVERHAUL**

He said the Treasury had the ability to fix the system so that the Government always receives the same tax take from retailers whatever the state of the economy, and this must change.

In a strongly worded attack on the present system, the proprietor of Topshop owner Arcadia said that the Government deliberately inflated rates despite the fact that rents were falling because of the poor state of the economy. He called for a rates freeze and a “rates holiday” for small shop owners.

Sir Philip said that the Government’s decision to delay a rates revaluation until 2017 did not take account of the fact that “the world has changed” since the last review in 2008.
“There was due to be a revaluation in 2015 and they are now trying to push it to 2017,” Sir Philip said.

“In the meantime what they [the Government} are able to use is a mechanism [called the] ‘uniform business rate’ [and] if there is a devaluation or the rent moves downwards they have this mechanism where they can inflate, they can create a value of their own.

“They can inflate the uniform business rate above the RPI (retail price index), so keeping their tax revenues in line. [They] fix it so they don’t lose any revenue.”

Sir Philip said that the situation was so serious for smaller shops the Government should consider giving them a rates holiday or allowing small shop owners who pay annual rates of between £20,000 and £50,000 to pay a nominal sum.

“Small shops cannot afford to trade,” Sir Philip said. “They need a bit of help.”

Sir Philip’s demand for reform of the rates system is supported by many high street retailers, including John Lewis, Boots, Tesco and Sainsbury’s. During evidence to the Business Select Committee in the House of Commons yesterday the retailers said it was time to “rebalance” the system so that businesses with a lot of physical stores were not unfairly penalised. Sir Philip called for a “level playing field” with online retailers.

Sir Philip gave an example of one of Arcadia’s stores where the rent came down from £500,000 to £125,000 over a five year period. The rates payable, though, remained at £227,000 even though Arcadia believes under a reformed system the amount should have fallen to £50,000.

“A freeze on business rates would not need legislative change,” Sir Philip said.

He also revealed that Arcadia’s annual rates bill of £150m could be reduced by £30m to £40m.

“If we are to reflect current rents [they] would be significantly lower than we are presently paying,” Sir Philip said.

Under the new system some rates, such as on Oxford Street, would go up because rents have risen but overall rents would reduce.

“We need to conduct this [review] in a sensible way,” Sir Philip said. “If I phoned 50 retailers they would be on board with this.”

Speaking yesterday to the Business, Innovation and Skills Committee during a hearing on the future of the high street, representatives from Boots, John Lewis, and Britain’s largest supermarkets identified business rates as the key issue facing Britain’s troubled high streets.

Alex Gourlay, chief executive of Alliance Boots health and beauty division, said: “If you look at corporation tax, business rates, and employing people, two thirds of costs [for retailers] are on the indirect tax of business rates and employing people.”

Mr Gourlay said rebalancing the costs of retailing offers a “real opportunity for the Government to act” on protecting the high street. He pointed to a report by accountants PricewaterhouseCoopers that showed the tax burden on Britain’s leading retailers has increased 65pc since 2005, driven by an 80pc increase in tax outside of corporation tax.

The report by PwC warns that the Government’s pledge to cut corporation tax to 20pc by 2015 has been offset for retailers by a surge in business rates and employers national insurance contributions.
ALLIANCE BOOTS, TESCO AND MARKS & SPENCER TO GIVE EVIDENCE TO THE RETAIL INQUIRY

Alliance Boots, Tesco and Marks & Spencer are among a wave of big name retailers set to criticise the business rates system when they give evidence to the retail inquiry next week.

The Select Committee for the Department for Business, Innovation and Skills, which is leading the inquiry into the UK retail sector, will hear the third round of evidence on Tuesday.

Major retailers including Alliance Boots, John Lewis, Marks & Spencer, Sainsbury’s, Tesco, The Co-operative and the British Property Federation will give evidence on the state of the high street.

Alliance Boots said the issue of business rates was, “the most significant challenge to operating successfully on high streets and town centres”

The health and beauty retailer added that the two-year postponement of the rates revaluation to 2017, which was announced last year, “comes at a difficult time for many struggling retailers”.

In the run up to the Budget, Retail Week, alongside the BRC, lobbied the Government to tackle the unfair business rates system through the Fair Rates for Retail campaign, which included switching the calculation to an annual estimate of CPI.

Retailers’ business rates bills have soared by more than £500m over the past two years.

The Government has committed to reviewing the calculation mechanism when fiscal consolidation plans have been implemented.

RETAIL FINANCE DIRECTORS TO HOLD BUSINESS RATES SUMMIT

Finance directors from some of the UK’s largest retailers are set to hammer out proposals for an overhaul of the business rates system.

A meeting is planned on Monday to bring together the finance directors from BRC member companies who aim to work up the industry’s position on business rates, which will be put forward to the Government later this year.

The meeting will include members with physical stores and online-only retailers, according to the FT.

It comes among a wave of retail support for a business rates overhaul. Retailers including Tesco, Alliance Boots and John Lewis urged the Government to act on business rates and the skills gap at the UK retail sector inquiry this week.

Arcadia tycoon Sir Philip Green also called for a freeze on rates. Retail Week and the BRC have been lobbying the Government to act on business rates over the past year.
The retail sector took on a £175m increase in business rates in April.

Finance directors will also examine the “business rates cliff” faced by the Government as retailers reduce the number and size of properties because of market conditions and the growth of the internet.

However, the meeting is not expected to tackle the possibility of an online-only tax, which has been suggested. The idea has divided industry opinion with BrandAlley chief executive Rob Feldmann calling it a “ludicrous and crazy idea”.

SCRAP BUSINESS RATES ON PUBLIC TOILETS, SAYS MP

NORTH CORNWALL MP Dan Rogerson has launched a campaign to scrap the charging of business rates on public toilets to help keep more public conveniences open and free to use.

Town and parish councils that are in charge of public toilets are obliged to pay business rates for the toilets they run.

Bodmin Town Council has recently closed the loo it owns at Dennison Road car park to save cash, which has brought complaints from residents.

Dan Rogerson has tabled a motion in the House of Commons calling on the Government to make public toilets exempt from business rate charges, to help keep more public toilets open and to keep them free to use.

While some smaller parish councils can claim small business rate relief to get out of paying the charges, scrapping business rates for public toilets would make the system simpler and would cover all town and parish councils.

Under the former Conservative-Independent administration running Cornwall Council, many public toilets became the responsibility of town and parish councils, or closed altogether.

Mr Rogerson said: "I know how it important it is to local people, businesses and visitors alike that our towns and villages have decent public toilets.

"As all councils are asked to make savings, I think it is right that the Government stops charging town and parish councils business rates on public toilets – after all council-run toilets aren't businesses.

"Removing this unfair tax on parish councils and communities would help make public toilets cheaper to run, leading to more toilets staying open and remaining free to use."
FSB CALLS FOR RADICAL OVERHAUL OF BUSINESS RATES SYSTEM

The survey, which polled 2,425 FSB members, found that a fifth of respondents pay full business rates, with a third of firms receiving some form of business rate relief, such as small business or rural rate relief.

Some 13 per cent of respondents confirmed they pay the same or more in business rates than in rent and the FSB has voiced concerns about the current system being cumbersome and overly complicated.

John Allan, national chairman of the Federation of Small Businesses, said: "The current rating system is a blunt tool for maintaining the Government’s income even when everyone else’s is shrinking.

"It takes no account of ability to pay, or changes to economic conditions. It is based on rental values but only adjusts its valuation assumptions every five years. Its treatment of empty property is tantamount to a tax on no income, and it continues to use RPI for annual tax increases because it is normally above the Government’s official measure of inflation, CPI.

"The FSB wants to see a level playing field for all businesses."

With another inflationary increase set to be calculated in the autumn, the FSB is keen for the Government to change the inflation index used to calculate annual increases from the RPI to the CPI to bring it into line with other government policies

"Businesses will continue to be lost as a result of this outdated and unfair system. The Autumn Statement will need a wide range of measures to target relief at businesses most in danger, and it will need to talk to business about a major overhaul of the system," added Allan.

"It doesn’t work anymore; it is crushing small businesses and killing the high street. That surely can’t be right."

BUSINESS RATES INCOME COULD BE AT RISK

There are growing signs of pressure on the government to reduce the impact of non-domestic rates. An inquiry by the business select committee into the UK retail sector has produced much evidence about the problematic impact of rates on retailers. With an end to the era of rapid retail growth, increased competition from the internet and the challenge provided by companies that avoid corporation tax, there is growing concern about the impact of the rates.
“Small shops cannot afford to trade,” Sir Philip Green, of Topshop fame, is quoted as saying. “They need a bit of help… a freeze on business rates would not need legislative change.”

He and other business people are now arguing strongly for increases below the annual RPI level. There is also pressure to remove smaller companies from the system.

Most businesses have, with justification, never fully understood the dynamics of the post-1990 system of nationally set nondomestic rates.

The money is collected by the council and used to fund council services. It is easy to see how many ratepayers have continued to believe that local government is responsible for the tax. In reality, non-domestic rates are a national tax.

Now that 50% of the NDR is retained locally, it will be tempting for the Treasury to chip away at the tax base. It is all too easy to imagine the government removing small retailers from having to pay rates and passing the reduction in revenue on to councils.

Ministers would argue, no doubt seriously, that a cut in the tax paid by retailers and/or small businesses would stimulate economic activity and therefore increase the tax take.

This is not to say that a number of retailers and small enterprises do not have a very good case to make. Business conditions have changed and the NDR is inflexible. But it would be unreasonable for Whitehall to allow councils to retain part of the NDR base and then immediately to start to remove it.

If businesses are to be relieved of the burden of taxation, the exchequer should bear the costs.

Transferring the impact of such relief to councils would defeat the aims of business rate retention.

---

**COURT WINDS UP RATE AVOIDANCE CHARITY**

The High Court has wound up a charity that ran a multi-million pound tax avoidance scheme by claiming charitable relief from business rates on empty commercial premises.

The Public Safety Charitable Trust was wound up by court order on Monday after South Cambridgeshire DC led legal action by a group of councils that claim hundreds of millions of pounds in unpaid rates. Liverpool City Council alone is owed some £1.6m.

South Cambridgeshire, Milton Keynes Council and Cheshire West and Chester Council won a case in May to stop the trust claiming the relief and require it to repay outstanding business rates.

Other affected councils have since taken cases to their local magistrates to secure repayments.

Although the ruling in theory opened the way for claims by councils there were already fears that the money would never be paid because the charity could collapse under the weight of demands.

One legal expert said then: “Even if the councils win [future cases] the money is effectively lost.”
The trust operated by installing wi-fi transmitters and broadcasting crime fighting messages to Bluetooth-enabled devices from otherwise empty premises.

It paid a nominal rent to landlords and received premiums from them in recognition of savings they made on buildings purportedly in charitable use rather than empty business premises.

Some 1,500 buildings nationwide were used in this way, 30 of them in South Cambridgeshire.

South Cambridgeshire deputy leader Simon Edwards (Con) said: “We quickly identified this as a tax avoidance scam that was denying the public purse millions of pounds.

“The judgements in this case send a strong and clear message to anyone looking to avoid paying rates due and I am pleased to see we have successfully wound up the firm so it can no longer operate.”

Winding up means an insolvency practitioner will now be appointed to investigate the conduct of the trust’s directors and recover any assets with which to repay the councils.

Trust director Mark Ferguson told LGC: “It is wound up. There will be an administrator appointed and I’ll have to talk to him. It was a very successful charity but it’s been wound up and I don’t know what to say.”

The Charity Commission opened an investigation in October 2011 followed by a more formal inquiry in May 2013 into the trust “following further concerns of risks to the charity’s assets as a result of [the] court judgement”. A spokeswoman said this process would continue.

ONLINE RETAILERS ATTACK PLANS FOR SALES TAX

Chief executives of Ocado, Shop Direct, Boden and N Brown write a letter to chancellor, putting themselves on a collision course with high street retail bosses

A row between online and high street retailers has reignited after some of the industry's biggest web-only businesses dismissed suggestions for an online tax as "nonsense".

The chief executives of Ocado, Shop Direct, Boden and N Brown have laid out their opposition in a letter to the chancellor. It comes less than two weeks after a British Retail Consortium meeting where companies were urged to end the infighting and focus on reforming business rates.

Ocado chief executive Tim Steiner, who attended the BRC meeting, has now put himself on a collision course with new business partner Morrisons after the supermarket's boss, Dalton Philips, called for an online tax.

The letter said: "Online is a rare and precious success story for the UK and one that we should take pride in. At a time when SMEs in these sectors are attempting to deliver innovation, growth and jobs they should not be choked off by unintended consequences of an unfair tax."

It added: "There is no logic to penalising companies that provide consumers the convenience, efficiency and value online shopping offers."
Several high street retailers, including Justin King of Sainsbury’s and Topshop’s Sir Philip Green, have called on the government to overhaul the business rate system.

King recently pointed to a US online tax system as a possible alternative and said there remained an "unlevel playing field" between bricks and mortar outfits and online-only retailers.

Morrison’s Philips added: "As more and more sales migrate online, it seems to me intuitive that you would tax the online channels as well."

The supermarket recently signed a deal with Ocado to launch an online service in January next year. However, Philips’ views are at odds with Ocado’s Steiner, who told the Guardian earlier this month that retailers need to "shut more shops and stop moaning".

The BRC had warned retailers to stop fighting each other and find common ground after splits appeared. Director general Helen Dickinson said: "The idea of seeing parts of the retail industry in conflict isn’t in the interests of the industry and, most importantly, it isn’t what customers want."

A recent report by PricewaterhouseCoopers found that business rates were higher than corporation tax. For every £1 of corporation tax, the top 100 retailers paid £1.44 in business rates. Online retailers still have to pay rates on the warehouses they use, however. Nonetheless, because the rates are calculated on rent, they are far lower than on a busy high street.

BAILIFF VISITS ROCKETS AS RETAILERS STRUGGLE TO PAY BUSINESS RATES

The use of bailiffs by councils to collect unpaid business rates in London has rocketed by more than a quarter over the past two years, hammering home how the punitive tax is crippling the High Street.

The cash crisis faced by many small businesses in the capital is reinforced by data showing that more than one in six commercial premises received a court summons last year.

The figures will fuel the debate over retailers paying a disproportionate amount of business rates — property taxes linked to the rateable value of commercial premises and the Retail Prices Index — which are frequently cited as a reason for chains collapsing. In the last month alone, retailers including furniture chain Dwell, fashion player Internacionale and toy specialist ModelZone have folded.

Bailiff instructions to business premises, mostly retailers, leapt 28.5% between 2010 and 2012 across the 10 London authorities covered by Freedom of Information requests. The rise in Wandsworth was 136%.

Although big retailers often hail the wealthy capital for being their best-performing region, London’s small businesses are squeezed by the country’s highest business rates. Retail campaigner Paul Turner-Mitchell, who submitted the FOI requests, said: “Year after year we’re seeing big rates rises. We’ve had two recessions and virtually no growth in the last five years. Yet the Government’s medicine to support businesses has been a £2 billion rise in business rates in the last two years.”
Of the 121,518 commercial premises covered by his research, 12,790 were referred to bailiffs for collection. The research was carried out on behalf of the review of the High Street being conducted by Bill Grimsey, the former boss of DIY retailer Wickes and the now-defunct chain Focus DIY.

He said today: “It’s clear to me that a root and branch reform is needed to make business rates fair and equitable and less of a burden on retailers as a whole. This is what my review will be looking at and we’re working hard to develop alternatives.”

The British Retail Consortium estimated that shops will have had to pay an extra £175 million in business rates bill from April when the latest 2.6% rise came in.

HAMMERSON BOSS DAVID ATKINS CALLS FOR REVIEW OF ‘CRAZY AND OUTDATED’ RATES SYSTEM

The boss of one of the UK’s largest landlords, Hammerson chief executive David Atkins, has branded business rates as “crazy”, joining the growing chorus of top business leaders calling for a review.

Atkins said as a landlord Hammerson has tried to provide a value-for-money proposition for retail tenants in the tough climate by altering rents and also “driving down” service charges, but that the growing business rates burden has turned into a “crazy situation”.

Atkins pointed out the tax was initially designed to fund local services, but that now they have become a revenue stream for local government.

“The system is relatively outdated and needs to be reviewed,” he said.

Atkins made the comments as Hammerson, which owns shopping centres including the Bullring, revealed net rental incomes up 9.9% to £140.4m in the six months to June 30.

Atkins said that while “conditions continue to be pretty tough” he remained optimistic on the outlook for retail.

“We’re definitely seeing improvements on a macro level, the data is suggesting we’re turning a corner,” he said. In recent weeks data has emerged reflecting a rise in housing transitions and a fall in unemployment.

Hammerson, which also has operations in France, said the French economic recovery is about 18 months behind that of the UK. “There is weaker business confidence in France than the UK, which flows through into weaker consumer confidence,” said Atkins. However, he pointed out that French consumers are less indebted than their UK counterparts, meaning when the recovery comes in France it may be speedier than in the UK.

Atkins said Hammerson lost 0.6% in revenue due to retail administrations, and subsequent store closures, in the period across the group. HMV, Jessops and Blockbuster all collapsed in the first quarter while the administrations of ModelZone and Dwell in the second quarter have also resulted in store closures.

However Atkins highlighted that there are only 25 stores out of 42 schemes that remain unlet as a result of administration, and that the impact has been short term. “I’m not saying [administrations] have no impact but it’s one we can absorb,” Atkins maintained.
PROPERTY INDUSTRY ATTACKS GOVERNMENT’S PLANNED EMPTY RATES RELIEF

The British Property Federation (BPF) has attacked the Government's planned exemption from empty property rates for new-build properties, saying that the scheme as designed is "hugely complex" and "appears designed to be hardly ever used". 30 Jul 2013

In its response to a consultation on the proposals, the professional body said that the new relief would have "little or no impact" unless it was extended to include buildings that had recently been redeveloped or refurbished, as well as newly built properties.

"The relief is so limited and needlessly complex that it almost appears designed not to be used at all," said Liz Peace, BPF chief executive. "That the Government has dreamt up a new definition for a building just to implement this policy is a case in point."

"It will certainly do next to nothing to stimulate development. If Government is serious about boosting construction activity then the renovation or refurbishment of existing buildings must also qualify for relief. This is an economically-productive activity that should be encouraged, not penalised through the tax system," she said.

Announced in last year's Autumn Statement, the new relief is intended to encourage speculative development by reducing the business rates liability of owners of unoccupied new buildings. The relief is intended to apply to properties completed between 1 October 2013 and 30 September 2016 that are left lying empty, during the first 18 months after construction.

Business rates are charged on most non-domestic properties including shops, warehouses and factories and make up the third biggest outgoing for small businesses after rent and staff costs. Premises are assigned a rateable value by the Valuation Office, which is then used by the local authority to calculate how much the occupier of that property should pay.

Owners of commercial properties, such as shops and offices, are exempt from paying business rates on empty property for three months after the property becomes vacant. Buildings with a rateable value below £2,600 remain exempt until they become occupied again, while buildings with a rateable value above this amount are liable for full rates after the exemption period has passed. This threshold, which was previously set at £18,000, came into force in April 2011.

Setting out the nature of the new relief in April's consultation, the Government said that it did not plan to change the rules on when a property becomes liable for empty property rates. It instead intends to reimburse local authorities that use their discretionary powers to provide relief from business rates in specified circumstances.

The relief is intended to apply to unoccupied non-domestic properties that are "wholly or mainly comprised of qualifying new structures". It is not intended to capture refurbished properties, but will more than likely apply to those built on existing foundations or around a retained facade. The building will be considered "completed" for the purposes of the relief either on the date that it becomes ready for occupation for the purpose it was constructed or the date on which a completion notice is served.

To prevent the application of EU state aid rules, which prevent national or local governments providing advantages or incentives to certain commercial companies, ratepayers will not be entitled to relief worth more than the 'de minimis' limit...
over a three-year period. This limit is currently set at around €200,000, and authorities would need to administer the relief in such a way as to ensure that this limit is complied with.

Commercial property expert Suzanne Gill of Pinsent Masons, the law firm behind Out-Law.com, said that although the proposals were "better than nothing" they were not going to "fix the malaise on the high streets or prompt lots of construction work".

"If the Government wants the scheme to benefit small developers it will need to make it simple to use – this adds little more than red tape," she said.

BUSINESS RATES BOMBSHELL FOR CHARITIES: ORGANISATIONS THAT HAVE BEEN EXEMPT FROM FEES ARE TOLD THEY WILL HAVE TO PAY UP FROM NEXT YEAR

CHARITIES will have to hand over thousands of pounds a year to Westminster Council as they are forced to pay business rates for the first time.

Legally, charities are exempt from paying 80 per cent of rates – which are determined by the size of their premises – and historically the council has given them 100 per cent exemption.

But now more than 70 charities in Westminster face having to pay 10 per cent each year as the council contends with a dwindling budget.

Among them is Paddington Arts, which recently lost an annual grant of £40,000 when the council scrapped their entire arts budget.

Steve Shaw, director of Paddington Arts, said the charge was like a “slap in the face” from the council.

He said: “They are taking our grant away and at the same time trying to charge us money. Instead of giving us money to support us, they are now saying we should give them money, which means instead of running a programme for the kids, we will be giving money to the council.”

Mr Shaw painted a bleak picture of the future for Paddington Arts, adding: “We are not going to go out of business on the 1st of April 2014, but unless we can replace that money we will go out of business – whether it’s 18 months, two years or further down the line.”

Charities put their case to the council who then decide how much they should pay from zero to 20 per cent.

Mr Shaw said they had enjoyed a long-term relationship with the council and was confused as to why they were being penalised for the good work they do.

He said: “We had two letters of support from long-standing council officers saying we do good work in the community, we work in partnership with the council. We are not a national charity, we are a small local charity, working with the community, reaching the parts of the community that the council can’t reach.”
“I can reel off the good work that we do, but the council is fully aware of it.”

Labour councillor Barrie Taylor said: “In these times of brutal cuts by the local authority, in terms of grants – £350,000 arts and culture reduced to zero next year – this additional burden amounts to a minimum of £3,000 to £4,000 a year and will produce a sink or swim position for many local charities.

“We imagine that it is not the intention of Westminster to force organisations out of business, and our call for a freeze on the current levels of discretionary relief is no different to the council’s policy to freeze council tax levels.”

Cllr Melvyn Caplan, Westminster City Council’s cabinet member for finance and customer services, said: “Charities can apply for up to 80 per cent rate relief, and up to 20 per cent discretionary relief can be awarded on top of that.

“At present we are reviewing 70 cases where discretionary relief is being received, and those cases are looked at by a cross-party panel of councillors. It’s important to stress that we look at every application on its merits.

“In the case of Paddington Arts, they receive 80 per cent mandatory relief.

The council’s rating advisory panel recommended in June this year that the level of discretionary relief be reduced from 20 per cent to 10 per cent with effect from April 2014.

Therefore, the current level of relief will remain at 20 per cent for 2013-14 and the current rate bill is unaffected – i.e they will have nothing to pay until next year.

“There is no doubt this is a tough climate for businesses and non-profit organisations alike.

“But with local authority finances under huge strain, the council’s job is to ensure we support frontline services and carefully consider the use of our scarce resources.”