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Property Tax and Assessment News from Around the World

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Retailers and small companies welcome business rates change

Treasury says change will save British companies £2.3bn over the next five years – though some hoped budget would freeze rates

Retailers have welcomed a change in the way business rates are calculated, which will save them an estimated £210m over the next two years.

After pressure from major high street names, the tax will switch from the retail price index (RPI) measure of inflation to the lower consumer price index (CPI) in 2018, two years earlier than expected. The Treasury said the change would save British companies £2.3bn over the next five years.

Helen Dickinson, the chief executive of the British Retail Consortium, said the move was "a hugely welcome and positive move". She added that another change announced by the chancellor, a switch from five- to three-yearly revaluations, would also make the system fairer. Business rates are based on a valuation of a company's property.

"These are encouraging first steps, so now is the time to commit once and for all to putting the rates system on a more affordable and sustainable footing, to support local communities, shops and jobs," Dickinson said.

High street retailers have complained that the rates system puts them at a disadvantage to online competitors, such as Amazon, which do not have an expensive presence on high streets or in shopping centres. They have called for a total revamp of business taxes, to tackle the issue.

Alex Probyn, the head of the UK business rates division of Altus Group, Britain's largest ratings advisory firm, said the chancellor should have gone further.

"This is a pretty cheap giveaway by government. A rates freeze was the minimum that business needed."

Probyn said revenues from the tax would still rise by £884m. The retail sector would shoulder £226m of that rise, according to Altus, even with rates rises limited next year to September's CPI rate of 3%.

Small businesses and retailers welcomed plans to introduce legislation to neutralise the impact of the "staircase tax", the tax imposed on individual rates bills for businesses occupying multiple floors of a property with more than one tenant.

The change resulted in substantially increased business rates for thousands of firms, backdated to April 2015 in England and April 2010 in Wales. Under the changes announced on Wednesday, local authorities will have to potentially return millions of pounds in back taxes. The chancellor has promised that they will be fully compensated for the loss of income.

Council tax debts: Thousands threatened with prison

More than 4,800 people were taken to court and threatened with prison for not paying a council tax debt in 2016-17, data seen by the BBC's Victoria Derbyshire programme suggests.

The figure has risen 11% in four years, despite 2013 government guidance saying court action should be a "last resort", the Institute of Money Advisers said.

At least 62 people were locked up in England and Wales in 2016-17.

The Local Government Association said it was "essential" to collect funds.

"It is not fair for the overwhelming majority of citizens that pay their council tax to let those who don't pay their fair share continue to do so," it said.

Council tax is spent on services such as care for vulnerable adults, looking after children, and road repairs.

The majority of people formally threatened with prison cleared their debt, managed to negotiate a payment plan with their local authority or received a suspended sentence.

In Scotland and Northern Ireland, local authorities are not allowed to imprison people for non-payment of council tax.
'Out of step'
The IMA's findings - seen by the BBC's Victoria Derbyshire programme - are based on the replies of 279 of 348 local "billing" authorities in England and Wales to a Freedom of Information request.

The report's author, Alistair Chisholm, said the approach to council tax debts was "completely out of step with the way other debts can be recovered".

"You can't go to prison for failing to pay an electricity bill or your rent," he added.

"It's time the law was changed in England and Wales so that council tax debt collection focuses on the circumstances, income and assets of a person and is not used to threaten their liberty."

The average council tax debt in the cases cited in the report was £2,213.

A magistrate can impose up to three months in jail for non-payment of council tax.

Before imprisonment can be considered, the council should try to recover the debt using bailiffs and must "enquire" into the defendant's means to pay.

But the IMA claims courts do not always interpret the law correctly and there is strong evidence that miscarriages of justice have occurred.

In January 2017, London's High Court found that Melanie Woolcock from Bridgend in South Wales had been unlawfully imprisoned for failing to pay £10-a-week towards her council tax debt.

After she failed to keep up with her payments, bailiffs were called, and although she had paid £100 towards the debt she was told it was "too late" and arrested.

She spent 40 days of an 81-day sentence in prison, eventually being released on bail after lawyers launched emergency proceedings.

Government guidance urges councils to explore other enforcement actions, like direct deductions from benefits or earnings.

The Local Government Association said "councils face a £5.8bn funding shortfall by 2020, which is why it's essential councils collect these funds.

"Councils offer a variety of support to people on low incomes, or who are struggling with financial difficulties."

Councils forced to repay millions after repeal of 'staircase tax'

One of Britain's poorest boroughs is facing a bill of up to £20m for overcharging on business rates — and will be forced to pay most of it to big banks.

According to property agent Colliers International, Tower Hamlets will be stung for the repayment after chancellor Philip Hammond axed the controversial "staircase tax" in last week's budget. The east London borough is home to the Canary Wharf financial district, a base for global banks including Morgan Stanley, JP Morgan and HSBC. Yet it also has the highest child poverty rate in the UK.

Scrapping the staircase tax was welcomed by small businesses who had been forced to pay extra in business rates if they operated on multiple floors of a mixed-use building. Knight Frank, an estate agency, said the chancellor had "started to listen to the rating experts again".

However, the levy also applied to giant financial institutions based in skyscrapers with more than one tenant. They are equally entitled to reclaim the tax they overpaid. Calculations by Colliers indicate that in total it will cost as much as £50m to reverse the tax in the UK, backdated to 2010. It said Tower Hamlets would have by far the most to repay of any borough because of Canary Wharf.

Tower Hamlets council said it would not speculate on the cost that reassessments for business rates would incur.

"We understand the government has confirmed that local government will be fully compensated for any loss of income," the borough added.

Budget changes to business rates do not go far enough, warns Argos boss

Chief executive John Rogers said "full reform" is needed.

The boss of retailer Argos has criticised the Chancellor for failing to reform "not fit for purpose" business rates and said this week's Budget changes were just "tinkering around the edges".

John Rogers, chief executive of Sainsbury's-owned Argos, told the Press Association the announcements made in Wednesday's Budget did not go far enough, with the tax having seen thousands of retailers hit with sky-high rates increases this year.

He said he was “disappointed” Philip Hammond had only offered a small reprieve by bringing forward plans to switch the inflation measure for annual rate rises to the Consumer Prices Index and cutting the length of time between revaluations to three years.

Mr Rogers said: “There needs to be a full reform of business rates – a business tax that’s based on property ownership is not fit for purpose.”

He added: “Tinkering around the edges is just not sufficient.”

Mr Rogers said an overhauled rates tax system needed to take into account the fact businesses are now becoming so much more digital, with 60% of Argos’s sales made online.

Mr Hammond said the changes announced in the Budget would save businesses a total of £2.3 billion over five years.

But it dashed hopes for a rates freeze, while many experts said it would not be enough to support struggling businesses.

Firms across the country were left reeling following the controversial revaluation of business rates earlier this year, which accounted for property price changes over the last seven years.

The comments from Mr Rogers come as the chain is gearing up for Black Friday – now its biggest trading day of the year.

Argos is launching its Black Friday deals three hours earlier this year, at 9pm, after seeing “enormous” numbers of shoppers start hunting for bargains online the evening before last year’s event.

It saw around half a million visits per hour from 4pm onwards on the Thursday before Black Friday in 2016.

While the group kicked off its 14-day discount bonanza on November 15, it confirmed the best deals have been saved for Black Friday itself.

Mr Rogers said it will be more important than ever before for many shoppers this year, with consumers squeezed by low wage growth and soaring inflation and fearful of what is to come in Brexit negotiations.
He said: “It’s a challenging market, reflecting a tough consumer environment and uncertainty – whether due to Brexit, the Government or the inflation that’s coming through – and consumers want bargains.

“They want to shop in a savvy way.”

He said October had been particularly quiet for retailers, but the sector was hoping Black Friday would be a “trigger” for consumers to start spending again ahead of the Christmas season.

Argos owner Sainsbury’s recently revealed tougher trading in its general merchandise arm contributed to a sharp slowdown in sales growth to 0.6% over its second quarter, while half-year profits tumbled 9%.

The supermarket giant, which bought Argos owner Home Retail Group for £1.4 billion last year, warned at the time of a “challenging” general merchandise market, but said it hoped Argos would give it the edge in a tough market.

It has already added 112 Argos stores within supermarkets, with another 53 due to open by Christmas, while rolling out click and collect nationwide for the chain.

Work to start on Non Domestic Rates Revaluation

The Department of Finance will start work on a Non-Domestic Rates Revaluation exercise with a view to preparing a new Valuation List for use from April 2020.

Land & Property Services (LPS) will revalue all non-domestic, mainly business properties in Northern Ireland for rates and the new values will be used to calculate future individual rate bills for businesses and organisations. This exercise will ensure that the rating system is more up to date, better reflecting local economic changes and making the system fairer.

For a project of this scale and complexity, a two and a half year lead in time is required by LPS to revalue over 75,000 non-domestic properties.

Regular business revaluations were supported in last year's consultation exercise and this will ensure that the rating system remains closely aligned to market values for business ratepayers and that the new revaluation is completed within a five year period. This is an exercise in redistribution and revaluation and in itself does not raise more money for public finances. The last revaluation of non-domestic properties in Northern Ireland was in 2015 and was based on April 2013 rental values.

Launch of All Party Parliamentary Group on Land Value Capture

In July of this year ALTER floated the idea of a Progressive Alliance round Land Value Taxation and put out a call for the formation of an All Party Parliamentary Group on Land Value Tax in advance of our fringe at Bournemouth on this theme.

In a pre-budget speech in the City of London this week, Sir Vince Cable laid out Liberal Democrat proposals for tax reform including investigating the feasibility of Land Value Taxation (LVT).

He said: Authoritative analysis of the British tax system, notably the Mirrlees Report, makes it clear that the taxation of land is the most economically efficient and rational form of taxation, the least open to evasion and avoidance and the most relevant to contemporary needs such as better utilisation of land for housing. The Lib Dems are committed as a first step to replacing business rates with site value taxation.

Sir Vince will Chair the inaugural meeting of the All Party Parliamentary Group (APPG) on Land Value Capture to be launched at Westminster next month, supported by Sir Edward Davey MP who has been active in investigating cartel-like practices and leasehold abuses in retirement homes

The 2017 Conservative manifesto included a commitment to registering all UK land and reforming land value capture as a means of funding local infrastructure. Richard Bacon MP (Conservative), who steered the Self-Build and Custom Housebuilding Bill through Parliament in 2015 will serve as Vice-Chair of the APPG. The South Norfolk MP has called for a revolution in people building their own homes as a means of fixing the broken housing system. According to Mr. Bacon, serviced plots can be sold for £55,000 (or rented out by local authorities) and a house built for between £80,000 and £160,000 dramatically reducing the costs that new households currently face.

Caroline Lucas MP (Green) who presented a private members bill in 2012 calling on the government to undertake a feasibility study into the introduction of LVT will also serve as a vice-chair.
Labour's 2017 manifesto promised to "…review council tax and business rates and consider … land value tax, to ensure local government has sustainable funding for the long term." Ruth Cadbury MP, who has served as part of Labour's shadow housing team will represent the Labour party position on the groups governing committee.

The SNP conference passed a resolution in March this year backing LVT as a mainstay of Scotland's land reform program.

ALTER is a member of the Coalition for Economic Justice. The CEJ comprises political groups, pressure groups and charities who came together in 2008 in response to the economic crisis of that year and who have continued to work together for the establishment of justice in economic affairs. The cross-party group proposes the introduction of LVT and will furnish secretariat services to the new APPG on Land Value Capture.

List reveals more than 100 local authorities are failing to distribute business rate relief properly

The Association of Convenience Stores (ACS) has called on the government to take further action to ensure that local authorities distribute rate relief properly after it was revealed that more than 100 authorities were yet to issue amended bills to businesses.

The list, published this week by the Department of Communities and Local Government (DCLG), shows that as of 13 November, 110 local authorities have not rebilled businesses to reflect the £300m discretionary relief scheme announced in the Spring Budget earlier this year.

James Lowman, ACS chief executive, said: “Thousands of local shops saw significant increases in their business rates bills as a result of the revaluation earlier this year.

“The £300m discretionary scheme is supposed to alleviate some of the pressure of rising business rates costs, but businesses in over 100 local authority areas are still waiting to find out how councils are planning to spend that money. The government needs to apply further pressure to ensure that businesses receive the reliefs that they’re entitled to as soon as possible.”

The list also revealed that 35 local authorities were yet to issue amended bills which cap the annual business rates increase for those losing small business rate relief or rural rate relief as a result of the revaluation, another measure announced in the Spring Budget.

Lowman added: “Local shops trading in rural and otherwise isolated locations are absolutely essential to their communities and many of them are having to delay or cancel investment plans as a result of increases in their rates bills. It is vital that the affected businesses in these areas are issued with accurate bills reflecting the cap announced in the Budget so that they can plan for the future.”

In October high streets minister Jake Berry spoke to ACS’ annual Heart of the Community conference, urging retailers to contact him directly if local authorities had not issued reliefs properly. At the time, more than 150 councils had not issued discretionary relief.

A DCLG spokesman said: “Ministers have been clear that all relief available under these schemes must be awarded to eligible businesses as soon as possible.

“Following the publication of the list, which allows local businesses to scrutinise how their authority is progressing, we are continuing to encourage councils to take forward their schemes and re-bill their local businesses.”

UK homes collectively worth £8.1 trillion

A noticeable decline in property prices in the third quarter of the year has caused the total value of British property to fall by over £60 billion.

The total value of all residential properties in the UK now stands at £8.1 trillion, and although this underlines housing’s status as the UK’s greatest store of wealth, it does represent a 0.77%, or £62.7 billion, decline when compared with the end of the second quarter of 2017, according to latest analysis.

The fall in property prices between July this year and September means that the average price of a home in Britain dropped in value by £2,188 during this period, which equates to a decline of £23.78 per day.

The analysis of property prices by Zoopla reveals that only Wales and Scotland bucked the downward trend in the third quarter of this year, with the average home in these countries rising marginally in value between July and September by 0.22% and 0.04% respectively. Meanwhile, property prices in England have dropped by 0.85% over the corresponding period.

With the exceptions of Wales and Scotland, residential property values have dropped in every region of Britain over the past three months, with the greatest decline found in London, where the average price of a home fell 0.99%, or £6,633, to £665,605.

The West Midlands saw the second largest dip in property prices with values down by an average of 0.97%, or £2,130.

Property values decreased the least in North West England, down 0.59%, taking the average property value in the region to £189,522. The North East of England and South West England follow behind with values taking a hit of 0.71% and 0.79% respectively.

On a more local level, the property price data reveals that half of the top 10 best performing towns are located in Wales.

Top of the list is the small portside town of Caernaford, which has experienced a growth rate of 1.57%, or £2,563.

Bangor, Llanelli, Milford Haven and Bridgend also make the top 10, placing second, fifth, ninth and tenth respectively.

Tewkesbury in Gloucestershire is England's top-ranked town and takes third place overall, with property prices increasing by 0.91% over the last quarter to an average of £289,429.

At the other end of the spectrum, Alton in Hampshire was Britain's worst performing town in the third quarter of this year, with average property prices falling by 2.17%, or £10,900, between July and September.

The market town of Alnwick in Northumberland experienced the second highest decrease, with prices dropping by 2.14%, or £5,119.

In third place, the average property in the riverside town of Isleworth in Hounslow dropped by 1.9%, or £9,580.

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Paradise Papers reveal schemes used to avoid tax on UK property deals

Leaked advice shows how private equity firm was able to buy and sell without paying stamp duty or capital gains tax

The lengths to which companies will go to avoid paying substantial amounts of UK tax are laid bare in the Paradise Papers, which reveal in detail for the first time how some of the biggest property deals in recent years were structured.

The data includes hundreds of pages of tax advice prepared for several multimillion-pound deals involving the US private equity group Blackstone, including the £480m purchase of a business park in west London.

Leading accountancy firms can be seen recommending the use of offshore companies and a series of complex loans to minimise the tax bills on buying, letting and eventually selling commercial buildings for Blackstone's investment funds.

None of this is illegal. In a statement, Blackstone said its investments were "wholly compliant with UK and international tax laws and regulations". But the disclosures are likely to reignite the debate over the fairness of aggressive tax avoidance schemes.

Included in the data is tax advice prepared for the acquisition of Chiswick Park, a 13-hectare (32-acre) site that hosts the UK headquarters of companies including Pokémon, Avon and the shopping channel QVC.

Before the deal was completed, Blackstone, a client of the law firm Appleby, commissioned tax advice from the UK-based accountancy multinational PwC.

In a 60-page report on tax structuring dated March 2011, PwC outlined a series of steps Blackstone could take to ensure its funds did not pay stamp duty on the purchase, to reduce its tax bill on the rental income it received while holding the property, and later to dispose of it without paying capital gains tax.

The first page of advice spells out the aim of the proposed tax structure, saying it "has been designed with a view to meeting the following key objectives".

They were:

- To mitigate, where possible, taxes on acquisition.
- To minimise continuing income, corporate, withholding and other taxes in the UK, Jersey and Luxembourg.
- To implement a structure that provides for flexibility for additional acquisitions, separation, development and divestment.
- To minimise tax on exit from a UK, Jersey and Luxembourg perspective.

The recommended structure, which was adopted by Blackstone, was complex and ingenious. It involved the creation of seven companies in Luxembourg through which money for the purchase of the estate was passed in the form of loans.

For the cost of €75 to establish each firm, Blackstone was able to substantially reduce its tax liability. Using the technique, it reduced the tax paid on up to £30m in rent it received each year, and on the £780m sale of most of the park to Chinese investors in 2013.

Although there is no suggestion of wrongdoing, the structure was so aggressive that PwC sought approval from Luxembourg tax authorities in advance of setting it up.

Appleby was again involved when Blackstone used a similar setup to buy a shopping centre in Glasgow in 2013. The £190m deal was for the St Enoch centre, which has 61 shops including Hamleys, Topshop, Boots and Debenhams.

This time, Blackstone sought advice from accountants at Deloitte. Across 67 pages, it outlined the same kind of tax restructuring scheme used for Chiswick Park. Again, Luxembourg companies and profit-participating loans (PPLs) were integral to the plans.

Chiswick Park and St Enoch shopping centre were already held in Jersey-based unit trusts when Blackstone swooped for them. This allowed the firm to buy them without paying stamp duty, as long as they remained "collective investment schemes" – something to which a number of investors had contributed.

To ensure this status was maintained at Chiswick Park, the purchase was made through two of the Luxembourg companies, called “Chestnut 1 Sarl” and “Chestnut 2 Sarl”.

PwC advised that any income they made from UK property would not be subject to Luxembourg taxes as a result of the country’s double taxation treaty with the UK.

Money for the deal was passed down from Blackstone’s property funds through five new Luxembourg companies in the form of PPLs. This type of loan is often used in aggressive tax planning as it is treated as a debt by the recipient, but equity by the lending company.

The recipient can offset interest on repayments against profit to reduce the amount of tax paid, while the lender can treat the interest paid as dividends. In a conventional loan, those repayments would be treated as taxable income.

For the Chiswick Park deal, PwC suggested Blackstone’s funds make a PPL of £131m to the Luxembourg company at the top of the chain. The tax structuring document explained: “PPLs are used to fund the acquisition finance to provide a tax-efficient means of repatriating profits from Luxembourg to the BREP [Blackstone Real Estate Partners] funds.”

After the sale, PwC recommended that the two companies buying Chiswick Park should register as “non-resident landlords” in the UK. This would allow rents from the multinational companies who let the offices there to be received without tax being applied. Before being declared to the UK taxman, the rents could be reduced by deducting the cost of the intra-company loans.

To ensure authorities did not consider any of the trusts or companies involved as being run in the UK, meetings of the unit trust were held in Jersey and attended by Appleby as trustees. Meanwhile, the Luxembourg companies signed off deals where they were based.

Two London-based companies involved in looking after the properties, Blackstone Property Management Ltd and Broadgate Estates Ltd, were designated “independent agents” of the unit trust to avoid giving it any kind of UK base.

Two years after the Chiswick Park purchase, the accountants provided more than 100 pages of advice on how Blackstone could refinance its holdings before putting the business park up for sale. By this point, Blackstone had sold off some of the buildings, and spun others off into separate unit trusts.

Accounts show the spinoff of “building six” and the cost of financing the trust’s operations meant it made a loss in 2011, despite collecting rent totalling £25m. In 2012, rent of £31m was reduced to a profit of £4m.

The documents from PwC also show that the setup of the loans had been rubber-stamped by the Luxembourg tax authority.

Deloitte suggested Blackstone approach Luxembourg authorities for an advance tax analysis ruling on parts of the St Enoch structure. At several points during its advice, it cautions that UK authorities may oppose its reading of the rules. In one section, Deloitte suggests HM Revenue and Customs may take issue with the use of loan repayments to reduce profits.

“There is a risk that HMRC will challenge the deductibility of interest in relation to debt drawn down to fund the acquisition of units in the JPUT, on the basis that it is not drawn down to fund the acquisition of the property directly,” it said.

A US tax expert who looked at the advice given by Deloitte and PwC said parts of the structures could be subject to challenge by UK tax authorities.

“There are certain ‘danger zones’ highlighted in the documents,” said Prof Reuven Avi-Yonah from the University of Michigan. “All of the problematic issues seem to be in the UK, presumably because they are going to get rulings in Luxembourg.”

Avi-Yonah, a specialist in corporate and international taxation, said the documents in the Paradise Papers gave an insight into company structures that was rarely available, even to the authorities, and that they could prompt action against certain schemes.

“The fact there is more than one structure and they are fundamentally similar suggests this a widespread type scheme,” he said. “If HMRC becomes aware of the fact that this is a common type of structuring then they are more likely to challenge it, because they will be aware they are losing a lot of revenue.”

In a statement, Blackstone said: “Blackstone’s investments are wholly compliant with UK and international tax laws and regulations. The property investment structures in question were acquired from institutional investors and are of a type commonly used for decades for investments in UK real estate, including by listed companies and a variety of institutional investors, and were adopted after appropriate advice was taken from leading tax and legal advisers.”

PwC told the Guardian: “We take our obligations to clients, governments and other stakeholders extremely seriously. The advice we provide is given in accordance with all applicable laws, rules, and regulations, including proper disclosure to tax authorities, and adheres to the highest professional standards and our own tax global code of conduct.”

Deloitte said: “We are unable to comment on specific client matters on grounds of confidentiality.”

‘Outdated rates system may collapse’

JERSEY’S rates system is on the brink of ‘collapse’ due to its outdated valuations and antiquated structure, the chairman of the Jersey Rates Assessors has said.

Edward Trevor said that businesses, especially shops, are paying unfair rates levels which are disproportionate to the rental value of the properties they occupy, as there has now not been a reassessment for 15 years.

Mr Trevor believes that the parish rates system will ‘collapse within the foreseeable future’ unless it is reformed and the cost of resurrecting it would be high.

And he alleged that the parish Constables are behaving ‘undemocratically’ by resisting proposals to introduce laws which would allow new revaluations to be carried out, a move which was approved by the States during last year’s budget.

Len Norman, the chairman of the Constables’ Committee, said, however, that Mr Trevor’s claims are ‘absolutely untrue’.

Mr Trevor said: ‘The current assessments are the average rental values for the properties in 2001/2 and at that time were probably more or less correct. But it is obvious to anyone with an ounce of grey matter that rents have changed over the past 15 years and that prime areas have moved, particularly in St Helier.

‘If you look at Colomberie – it used to be a créme de la créme shopping centre, now it is not. By the same token, the Esplanade used to be nothing to shout about, now it is the créme de la créme.

‘This means that businesses are paying disproportionate rates based on 15-year-old valuations. In particular, retail seems to be paying too much and offices too little.’

The rates system taxes land-owners based on the value of their property, with some of the proceeds going towards the parish and the remaining ‘Island-wide’ portion to the central States Treasury.

The States approved proposals in the Budget last year calling for regulations to be introduced so that the rates can be revalued. But Mr Trevor, who is also the chairman of the St Helier Assessment Committee, said the Constables, who oversee the existing rates system, had responded to this with ‘prevarication’.

He added that he believes revaluations should be carried out every ten years but fears that the parishes, which administer the rates system, do not have staff capable of doing this. He believes that a central rates committee should be set up to replace the existing system, which is divided between the 12 parishes.

Mr Norman said Mr Trevor had failed to recognise that how rates are assessed had changed since 2002. ‘What he must understand or recall is that about 12 years ago, the States moved away from rental valuations to attributes and the condition of properties. The rates are not based on rental values now.’

He added that he had followed up with the Treasury Minister to ask what the ‘way forward’ was with bringing forward the Budget proposals.

'I was the one who asked [Treasury Minister] Alan Maclean what he wanted to do to take it forward. So there has been no blocking or "prevaricating",' he said.