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Property Tax and Assessment News from Around the World

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Nearly a quarter of a million companies to face above inflation business rate hike

Nearly a quarter of a million firms will be hit with above inflation property tax hikes next year, according to new data.

Figures show 248,186 companies in England will face a business rates rise beyond 3.9% in 2018, upping the pressure on Chancellor Philip Hammond to ease the financial squeeze on firms.

It comes after the Office for National Statistics (ONS) confirmed last week that business rates would increase by 3.9% next year in line with September’s Retail Price Index (RPI), meaning English companies must stump up an extra £1.1 billion.

Business rent and rates specialists CVS, which compiled the data, is urging Mr Hammond to “be bold” in his November Budget by freezing annual inflationary increases.

CVS chief executive Mark Rigby said: “Brexit is driving inflation. Import prices have risen given the fall in the pound with prices rising faster than wages causing households to ‘tighten their belts’ on spending, especially on ‘big ticket’ items.

“Business investment has slowed and confidence fallen.

“Against this backdrop we already have the highest property taxes, not only in Europe but the world.

“The Chancellor must be bold within his upcoming Budget next month through an unprecedented stimulus of freezing rate rises in April 2018.”

The research shows that 24,067 small shops, pubs and offices will see their business rates bill climb by between 4% and 9.99% next year, while 96,045 small properties will see their rates rise between 10% and 14.99%.

In addition, 110,243 medium-sized properties and 11,861 large properties will also be hit with above inflation increases in 2018.

Of those large properties, 4,398 will see their tax bills jump by more than a third at an extra £175.7 million.

Firms across England and Wales have already been grappling with changes to business rates following April's revaluation, which accounted for property price changes over the last seven years.

As part of the revaluation, companies have been offered transitional relief so any big jump in bills are phased in slowly over a five year period.

The cap for 2018/19 is 7.5% plus inflation for small properties, 17.5% plus inflation for medium properties and 32% plus inflation for large properties.

It was also revealed last week that close to half of English councils have yet to issue revised business rates bills after the announcement of a £300 million discretionary relief package during the Spring Budget.

Only 157 out of the 326 councils have informed the Department for Communities and Local Government that they have reissued their bills allocating the allowance.

The City of Westminster's voluntary tax on high end properties is an innovative way to fund local public services

Westminster City Council recently hit the headlines when its leader floated a proposal to introduce a voluntary supplement to the city's council tax.

Occupiers of around 2,000 properties worth more than £10m – the top end of 15,000 houses in Council Tax band 'H' – would be asked to pay more. With a council tax of just under £1,400 the scheme could raise between £2m and £3m a year, depending on take up.

At one level, the idea is not entirely new. Business Improvement District members pay a supplement of around two per cent of their property taxes after a ballot. Resources are used to top up public services, such as street cleaning, security, greening and recycling facilities and to provide a helping hand to visitors to help boost retail footfall.

But asking residents for more money is novel. There are a number of reasons behind it. Firstly, austerity. London boroughs have seen big real terms reductions in their Whitehall grants. In the six years to 2018/19, Westminster alone is having to make savings of some £200m.

London boroughs across the board are in the same boat. The best run councils are going to find it increasingly difficult to deliver further efficiencies without damaging front line services.

Then there is our over centralised tax system. According to the London Finance Commission, barely seven per cent of all the tax paid by London residents and businesses is retained by London government. The equivalent figure in New York is seven times higher.

This gives our councils very limited wriggle room to raise revenues for much needed services. It also means that only big rises in council tax generate a significant overall increase in resources. That is understandably a political headache.

At £2m to £3m per year, the amounts raised by Westminster's community contribution would be modest. Westminster's total revenue in 2016/17 was around £1.3bn. But it's a start. And as a proportion of Council tax – some £49m – it is more significant.

If all Inner London's 14 authorities were to follow suit, some £40m per annum could be raised if, say, half of all band H payers were to contribute. That starts to become a substantive sum. Spent wisely it could protect provision for some of the most disadvantaged residents of the city.

For years, Whitehall has put off reform of domestic property taxes. That policy has become increasingly unsustainable as it has shifted the burden on to other payers. This year's delayed business rate revaluation meant nearly 8,000 London businesses saw a sudden 45 per cent increase in their bills. Some may go to the wall. The City of Westminster's proposal is an innovative attempt to break a central government log-jam.

Consultation is aimed to allow for an April 2018 introduction and neighbouring councils will be looking over their boundaries to see how the idea goes.

If it gets the green light by Whitehall and is locally acceptable, it might just mark a turn in the way London pays for local government services. For residents and businesses who depend on well-funded local public services, that point can't come too soon.

Crossrail 2 mulls fresh funding model

Crossrail 2 is considering a new land value capture model called DRAM to help fund the £31bn scheme, according to Crossrail 2 managing director Michele Dix.

Speaking at real estate conference MIPIM in west London, Dix explained that some people who benefit from major transport schemes are not contributing sufficiently, such as landowners whose land value increases as a result of new transport links.

"What we have to do is do more work to understand how to capture that value in the first place," said Dix.

As a result a trial funding model called the Development Rights Auction Model (DRAM) is being developed by the City Hall, Transport for London (TfL) and other government bodies. It was announced as part of a London Devolution Agreement in the March Budget earlier this year.

DRAM works by using the extra benefits from a transport scheme, such as an uplift in land values as a result of new rail stations, to fund new infrastructure projects such as Crossrail 2.

In areas with a high potential for development, particularly for housing, land would be pooled and auctioned to developers as a package to get the best use out of the available space.

Any landowners in the zone who did not want to join would face a high Community Infrastructure Levy (CIL) payment.

In July transport secretary Chris Grayling gave his backing to Crossrail 2, but warned that 50% of the funding for the £31bn project would have to be sourced during its construction.

Dix said that the Mayor's Community Infrastructure Levy (MCIL), a developer contribution tax which is helping to pay for Crossrail 1, works well in London. However some London boroughs have expressed concern over proposed raises to the current MCIL level.

Earlier this month it emerged that Crossrail 2 could be pushed back until the 2040s to give TfL more time to raise the required funds.

Unjustified business rates are a hungover relic from the time before the digital age

Business rates are a tax on property that is statutorily required to bring in the same amount of revenue each year in real terms.

This amounts to a cash increase every year. While more money is being collected, fewer properties are now paying the tax.

The reason for this is fairly obvious: a rapid move by businesses towards online services. The clearest example is in retail, but this is also evident in banking, communications, professional services, and other parts of our lives.

This shift is no bad thing in itself, but it does raise questions of a tax that is based solely on physical property, and last underwent any significant reform in the early 1990s.

One of the main factors driving the switch to online – and away from high streets – is the escalating costs of business rates.

This year's revaluation saw bigger increases for high street operators than for digital businesses – so naturally firms have an incentive to look to leave the high street, and perhaps cease trading from bricks and mortar properties altogether.

Thus the cycle continues. More money needs to be raised from fewer properties, which then switch their business models so they are not so reliant on a physical location, meaning greater sums need to be raised from even fewer properties, which are squeezed by even higher business rates. It is simply unsustainable.

It also unfairly targets businesses which by their nature require a high street presence, requiring them to make up the shortfall caused by other sectors in which flexible or remote working is more feasible.

Eating and drinking out is one of Britain's most dynamic, innovative and resilient sectors. It has created one in seven of all new jobs, and has grown by more than five per cent each year since 2010. Pubs, clubs and restaurants have driven a renaissance across high streets that are now being damaged by increasing financial burdens. It is clear that this situation cannot continue indefinitely, without gouging the heart of Britain's high streets for good.

In our submission to the Treasury ahead of next month's Budget, the ALMR has outlined a compelling case for wholesale reform of the outdated rates regime. The total rates bill for eating and drinking out businesses currently stands at £1.1bn. Businesses in our sector pay 4.5 per cent of the total liability yet account for just 1.1 per cent of turnover. This works out as an overpayment of £890m every year.

So, what can be done? A good initial step would be to either freeze the business rates level, or use the CPI rate of inflation over the discredited RPI for uprating.

The second crucial step would be to announce a full root-and-branch review of the system, with sector-specific reliefs until this takes place.

All the main parties had commitments to address its flaws and unfairness in their election manifestos earlier this year. We now need action rather than words.

Finally, we need the importance of our vibrant sector reflected in the machinery of government. Issues critical to the sector straddle a number of different departments, encompassing employment, planning, taxation, tourism, and more. There is a real need for all of these to be considered holistically.

First though, we need to stop the business rate model from destroying our high streets.

Technology can help resolve UK's congestion, capacity and carbon issues, says Adonis

Technology can help the UK to address congestion, capacity and carbon issues and ensure the country makes the most of its infrastructure, the chair of the National Infrastructure Commission (NIC) Lord Adonis has said.

In a new consultation paper (218-page / 6.66MB PDF), Adonis said there were seven priorities that needed to be addressed to help the UK lead the world in infrastructure. He said there are currently weaknesses in infrastructure planning in the country. The consultation is the NIC's interim National Infrastructure Assessment (NIA). The NIC is obliged to carry out an NIA every five years. It is due to publish the first NIA, and associated recommendations, in 2018.

According to the paper, the UK needs to focus on building a digital society, better linking homes and jobs, delivering new homes, moving to a low-carbon economy where emissions from power, heat and waste are a thing of the past, and revolutionise road transport by "seizing the opportunities of electric and autonomous vehicles".

The UK must also do more to "stand up to drought and flooding" and finance infrastructure in efficient ways across both the public and private sectors.

"None of these challenges will be resolved by perpetuating the status quo," the report said. "Too often, a short-term view, often driven by political considerations, has prevailed or crucial interactions between sectors have been ignored."

Simon Colvin, expert in technology contracts at Pinsent Masons, the law firm behind Out-Law.com, said: "The convergence of physical infrastructure assets and digital technologies is becoming increasingly prevalent, as we highlighted in our recent report on the evolution of infratech. The NIC's NIA will help to identify the opportunities to build on this trend and ensure that digital technologies are front and centre in infrastructure planning."

"For the UK's infrastructure to be efficient and world class, there needs to be a strong digital backbone. The government is already acting in this regard, including through its forthcoming new competition for funding for 5G testing, as well as its support for 'full-fibre' broadband networks across the country," he said.

Infrastructure expert Nick Ogden of Pinsent Masons said: "Digital technology can help the UK build, maintain and upgrade our physical infrastructure, improving efficiencies and inevitably helping to boost the country's productivity. If the infrastructure developers and technology companies can overcome the cultural differences, stop working in silos and learn to truly integrate, we have the opportunity to once again be a global leader in infrastructure. Government should recognise this opportunity, leading with clear technology regulations and boosting funding for infrastructure."

In its consultation paper, the NIC highlighted the infrastructure challenges that the UK will face as a result of the anticipated growth in population in the country by 2050. Issues of congestion, capacity and carbon emissions will arise as a result, but technology can play a central role in managing these pressures, it said.

The report called for "substantial investment in digital infrastructure", such as new broadband networks and 5G technology, and further highlighted the potential of "smart traffic management systems" and "mobility as a service" to relieve road congestion in the UK.

It further backed "digital mapping" as a tool to help planning the delivery of new housing that the UK needs, and flagged the potential of smart energy technologies for reducing the UK's carbon emissions.

The NIC also said that it is time for the UK "to consider how road infrastructure and use should be replanned or redesigned to maximise the benefits of connectivity and autonomy in the long term". It said the government needs to support growth in the use of electric, connected and autonomous vehicles "with the right infrastructure", such as a network of charging points for electric vehicles. Excess power from electric vehicles could, potentially, be provided back to the Grid "during periods of peak demand", it said.

Sensor technology, smart meters, drones and satellite technology could all be harnessed to help manage the risk to UK infrastructure posed by extreme weather, it said.

The NIC said the government has a central role to play in helping to spur private sector investment in infrastructure. It said the government must help address uncertainties such as in relation to future of support for UK infrastructure from the European Investment Bank in light of Brexit.

"Different financing approaches and models can play a role in bringing more private finance into infrastructure, enabling projects to be built earlier or delivered better over their whole life," the NIC said." The UK was once a leader in public-private partnerships, but implementation has stalled. A lack of consistent evaluation of past projects makes it difficult to draw reliable conclusions on the whole life costs of comparable, publicly funded, projects using private finance compared to those wholly financed within the public sector."

"The Commission will consider where new procurement and financing mechanisms are best suited to help meet the UK's infrastructure needs," it said.

Colvin said that in the tech space the UK also needs to ensure that it is a market leader.

"Through public sector investment and projects which foster development of new technologies and collaboration between government, industry and research establishments we can ensure we remain on the map internationally, and specifically post exit from the European Union," he said.

Graham Robinson, global infrastructure expert at Pinsent Masons, said there are challenges to overcome in terms of ensuring new infrastructure is funded in a way that is "affordable for the nation".

"Increasing investment within the fiscal remit of 1.0% to 1.2% of GDP will require a sustained and long-term commitment to funding and paying for significantly more infrastructure than has been the case before," Robinson said. "This will require considerable private investment, at a time of greater uncertainty and a weakening economic outlook."

"Innovation in funding, with Land Value Capture, TIF and much greater devolution of spending and revenue raising, will need government to play a significant role in working closely with investors and businesses who it wants to help fund much needed infrastructure, and set out clear policies and an 'open doors' approach to international investors," he said.

"At a time when Britain must improve its productivity, and whilst long-term debt is still cheap, and where productivity could be improved through greater investment in infrastructure, then now is not a bad time for the government to be setting out a bold vision for the future, where infrastructure sits at the heart of our economy, connecting us to international markets," Robinson said.

The deadline for responses to the NIC's interim NIA consultation is 12 January 2018.