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Property Tax and Assessment News from Around the World

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## Thousands of firms hit after year of rates misery

The April 1 rates overhaul saw 1.9 million commercial properties in England revalued and rates rise for 500,000 businesses.

Retailers, hospitals, pubs and schools were among those dealt a hammer blow this year when the first business rates revaluation for seven years left many facing crippling bill hikes.

Branded “absurd” and “not fit for purpose”, the April 1 rates overhaul saw 1.9 million properties in England revalued and rates rise for 500,000 businesses.

Firms in London – retailers and pubs in particular – were some of the hardest hit due to soaring property values in the capital since the last time business rates were reviewed in 2010.

Some small firms saw eye-watering increases in their rates – the commercial equivalent of council tax – and have been forced to pay while waiting to appeal.

It has come at a painful time for many as companies have also seen staff costs soar after the introduction of the national living wage, while the Brexit-hit pound has pushed up the price of imported goods, energy and services.

Experts said the revaluation exposed how unfair and illogical the system is, with some firms receiving rate hikes while their neighbours enjoyed tax cuts.

In one of the more high profile cases, the Press Association revealed last year that former chancellor George Osborne’s family wallpaper firm enjoyed a cut of more than £3,400 a year for its showroom in London’s swanky King’s Road, while shops on the same street suffered increases of 50% or more.

Osborne & Little’s rates cut highlighted the apparent inequality of the system at a micro level, but the revaluation also brought to the fore more major issues with rates inequity.

It exposed how state schools and NHS hospitals have been left paying full rates while their private counterparts can enjoy 80% charitable relief.

For cash-strapped NHS sites, this has meant that while they must fork out £1.83 million in rates over the next five years, private hospitals in England and Wales are enjoying a £52 million tax break.

Taxpayers have likewise been giving private schools a £522 million subsidy on their business rates bills thanks to their controversial charitable status, including some of the most elite schools in the country such as Eton College.

In Scotland, which has a separate rates system, it was announced in December that private schools will no longer be eligible for business rates charitable relief from 2020-21 in what was seen as a landmark decision.

There could also be change on the horizon for hospitals in England as a raft of NHS trusts are set to begin court action challenging the Government to demand relief on a par with private hospitals.

Another high profile court case in 2017 saw some of Britain’s biggest supermarkets join forces to appeal against a controversial tax ruling that could spell the end of free “hole in the wall” cash machines attached to shops.

They are appealing against a legal ruling in April to uphold a decision in 2013 that cash machines built into the front of a shop or petrol station should have a separate business rates bill – a move costing the industry nearly half a billion pounds.

Meanwhile, tens of thousands of firms wishing to challenge April’s significant bill hikes have had their efforts frustrated by a new complex appeals system and a myriad of IT glitches.

The most recent figures showed that just 5,650 firms across England have begun appeals since April, with only 400 making it through to the next stage of the process and no formal appeals lodged.

This compares with close to 20,000 appeals lodged a month after the last revaluation seven years ago.

Chancellor Philip Hammond has sought to offer embattled firms some concessions, announcing a £300 million relief fund in March’s Spring Budget for councils to dole out, as well as a £1,000 discount for small pubs, which has since been extended to 2019.

In the main autumn Budget, he also brought forward plans to switch the inflation measure used to calculate annual increases in a £2.3 billion reprieve and revealed plans to reduce the period between revaluations to every three years.

But he was condemned for not doing enough to support struggling firms, with many calling for a rates freeze and others demanding a full overhaul of the system.

Alex Probyn, president of Altus Group, Britain’s biggest ratings advisory, said 2018 should see “normality” resume after 2017’s upheaval, but warned much still needs to be done to make the system fairer.

He called for the Government to be more “creative”, with rates exemptions for new plant and machinery, and predicted “firm proposals” on taxation for online retailers.

He said: “Some retailers will have to absorb very large increases in their bills, which could spiral by a further 32% plus 3% inflation next year.

“Those bills could be more affordable if the playing field with their online competitors was levelled.

“It’s not just about retail. Ratepaying hoteliers have a source of unfair competition in Airbnb hosts, who lack the same overheads.”

Experts are also predicting a wave of appeals in 2018 as firms get through the new ‘check, challenge and appeal’ system, while pressure is unlikely to ease up on the Government to re-think its entire approach after a year of unprecedented rates misery.

### Valuation Office to close half its offices over next five years

The VOA (Valuation Office Agency) has announced plans to reduce the number of locations in which it has offices from 52 to 26 in what experts are describing as a nightmare for businesses that want to repeal their business rates liability.

Colliers International said: "Looking at the list of planned office closures it appears that by 2023, the VOA will only really be in the main UK cities, with a London presence solely in Canary Wharf. Offices in smaller, regional centres will be closed leaving just four in Scotland and two in Wales."

“This is a shambles,” said John Webber, Head of Business Rating at Colliers International. “It’s inconceivable that a time when the VOA has over 200,000 outstanding appeals still in the system and has introduced a new "Check, Challenge, Appeal (CCA) System which businesses find impossible to navigate, that the Government has decided to reduce, rather than boost the number of offices and professionals that can sort out the issues.”

According to a recent FOI Request made by Colliers to the VOA, nearly 90% of the 847 respondents that were trying to use the new appeal system said they were dissatisfied or very dissatisfied with it, calling for greater clarity, speed and guidance. It added that many have found it impossible to navigate.

"So now not only is the appeal system making it more cumbersome if not impossible for businesses to appeal their rate bills, but there are fewer places and people to help." continued Webber. "It’s like closing a hospital because there are too many sick people to deal with, in the hope that they’ll just go away. It doesn't solve the issue, just tries to sweep it under the carpet."

Colliers has been a supporter of the VOA and has recommended that the Government invests more in its people and systems so that the backlog of appeals can be dealt with and a proper fit for purpose organisation is created for the future.

Webber continued: “Many businesses have been hammered in the recent business rates revaluation, with some big rate rises and with the uncertainty caused by Brexit, additional costs of the NLW and apprenticeship schemes and interest rate rises, it is a difficult time for many. Both the CBI and FSB called on the Chancellor to freeze business rates given current hardships and sort out reliefs, many of which have been promised but not yet given. Last Wednesday's Budget did little to ease the pain. Despite linking rate rises to CPI rather than RPI, businesses will still see a 0.75 billion rate rise in April 2018. We join the demand that the Government helps support business rather than hindering it."

Webber concluded: “Cutting the VOA so dramatically is not only bad news for the VOA where it will hit morale as it haemorrhages staff and jobs, but also for businesses who more than ever need to be able to appeal their rate bills in a simple, efficient and fair way.”

The Treasury currently receives a net income of around £26bn from the business rates system.

### Is it fair to tax undeveloped land?

There has been much talk about introducing an array of new property taxes such as a tax on undeveloped land. The idea is that not only will this provide additional tax income for governments but it will also encourage companies and individuals to develop the land they own. When you bear in mind that some of the larger housebuilding companies in the UK for example have land banks which will fulfil their requirements for the next decade, perhaps this would be one way to speed up development?

COMPETITION IN THE HOUSEBUILDING SECTOR

In the UK there are many housebuilding companies but it is fair to say that a handful of the large companies dominate the market. Many of these companies will buy land for development many years down the line which will often starve smaller companies who tend to buy on an “immediate requirement basis”. The challenge of selling new houses as soon as possible has a massive impact upon cash flow for all sized housebuilders. The situation is perhaps a little more challenging for smaller companies because any delay would starve their businesses of capital – which is why many tend to buy land and develop almost immediately.

It is also fair to say that bulk buying of land for future development by larger companies increases the scarcity of quality land and therefore pushes up the market price. This is simply a case of supply and demand of relevant quality land for development.

BUILDING MORE HOMES

One bugbear of politicians in recent times has been the amount of land used to develop large properties. The argument is that many more homes could be built on these sites while still maintaining a degree of luxury but without the surrounding gardens and fields. One way to ensure maximum use of undeveloped land would be to charge an annual tax. This would in reality increase the carrying cost of these batches of undeveloped land and encourage developers to squeeze more homes onto land than they would have done in years gone by. This would not only maximise their income but it could also go a long way to alleviating at least part of the U.K.'s housing shortage problem.

There is one additional issue which does need addressed, that of investment in apprenticeship schemes which in years gone by provided a constant flow of employees for the housebuilding industry. Perhaps any income streams created by introducing a tax on undeveloped land could be reinvested into a UK wide apprenticeship scheme?

ENCOURAGING DEVELOPMENT

There are many ways in which the UK government could encourage the development of undeveloped land. Any such moves will often curry favour with voters but when everything is stripped back, there does need to be significant demand for new properties. At this moment in time, even though the UK housing market is struggling to remain in positive growth territory, there are still many potential first-time buyers who would switch from the private rental market – if more affordable properties were available.

The UK government made a number of concessions in the 2017 budget specifically in relation to stamp duty and the often difficult planning permission application system. It will be interesting to see whether the authorities get anywhere near their short to medium term target of 300,000 new properties per annum in the UK. If they stand any chance, they will need to encourage property developers to maximise the use of their land banks sooner rather than later. In many ways a land tax, and the financial hit in their pockets, is perhaps the most direct and blunt tool in the armoury of the government?

## Government begins reversal of 'staircase tax'

The Government has begun the process of reversing the so-called 'staircase tax' in order to ease the burden on business owners.

Communities Secretary Sajid Javid will today publish draft legislation to reverse the tax, which is expected to benefit up to a thousand firms.

Companies which occupied more than one adjoining floor but which used a communal staircase between floors had been taxed as if they occupied separate properties, barring them from accessing rates relief payments which they could only qualify for if they owned one property.

As a result of a Supreme Court ruling on the issue in August many businesses were facing significant bills backdated to April 2015, but these will now be written off.

Under today's new legislation, firms can choose to have their rates recalculated under the old single bill system and any savings due will be backdated.

Mr Javid said that the tax was "an unfair rates hike for businesses".

Meanwhile, two senior judges have criticised the number of business rates appeals which have been thrown out by the Government's Valuation Tribunal amid concerns that the system is crippling small businesses in particular.

A recent case heard in the Upper Tribunal highlighted that almost a quarter of appeals made by ratepayers against their last business rates valuation have been struck out on a what some consider a minor technicality.

The case, which had been brought by property firm Colliers, was heard by Sir David Holgate and Martin Rodger, who are president and deputy president of the Lands Chamber court respectively.

In their judgment, they criticised both the Valuation Tribunal for England (VTE), the judicial body for business rates appeals, and the Valuation Office Agency (VOA), which administers business rates for the Government, for dismissing cases over minor breaches of procedure.

The judgement said the VTE should review its processes and ensure that it follows its own rules, and must avoid adopting an indiscriminate zero tolerance approach.

Research by Colliers found that of 937,430 appeals against business rates since 2010, 221,360, or 24pc, have been struck out before getting to court. Before an overhaul this year, rates had last been changed in 2010.

But John Webber, head of ratings at Colliers, said the VOA had used the fact that only 27pc of appeals are found in favour of the ratepayer to justify moving to a new, more complicated system of appealing in April.

This new system has been widely criticised for being even more difficult to lodge an appeal through.

“At the end of the day it is the small businesses that are suffering. Those without the resources to navigate their way through a complicated and highly technical procedure,” Mr Webber said.

### Privatised NHS and tax rises forecast by IMF

Taxes will have to rise if the government is to balance the books by the middle of the next decade and the NHS may have to be privatised, the International Monetary Fund has warned.

Property taxes, the removal of preferential VAT rates for goods such as pasties, and higher national insurance contributions by the self-employed need to be considered if Britain is to have any chance of eliminating its budget deficit by 2025 because spending cuts have gone about as far as they can, the global economic watchdog said in its annual review of the UK.

Weak productivity and the increasing care demands of an ageing population will make deficit reduction harder. Public services such as the NHS may have to be scaled back or privatised, it added.

The warnings are a reminder of the persistent problem of Britain’s public finances almost a decade after the financial crisis caused borrowing to soar. National debt is 87 per cent of GDP and spending on public services exceeds revenue from taxes by more than 2 per cent of GDP.

“Continued deficit reduction is critical to create further room to respond to future shocks,” Christine Lagarde, managing director of the IMF, said. “There is not much space for additional spending cuts and the revenue side of the equation has to be looked at.”

Britain is already forecast to be paying 34.3 per cent of GDP in tax by 2022, more than at any time since the 1950s, but economists estimate that at least £20 billion of extra austerity will be needed to hit the government’s target of balancing the books.

Ms Lagarde said population changes were adding to the problem. “Population ageing is expected to lead to material increases in spending on healthcare, pensions and long-term care, while productivity growth has been slow. And a slowly growing economy means fewer resources will be available to meet increased spending,” she said.

The public spending burden will soon make Britain face some hard choices, the IMF added. “The UK may face difficult decisions about the desired size of its public sector, as well as the mode of delivery and financing of public services. Brexit-related effects may exacerbate the challenge.”

To address the problem, Britain needs to boost productivity. Ms Lagarde welcomed the chancellor’s £31 billion fund for infrastructure investment and focus on technical qualifications because “the UK underinvests in infrastructure and falls short in human capital development”. But she said that more needed to be done “such as easing planning restrictions and reforming property taxes to boost housing supply”.

As well as introducing a land tax, the government should harmonise VAT for goods that get preferential rates and better “align the tax treatment of employees and the self-employed”. Both proposals have proved a poisoned chalice for chancellors. George Osborne tried to harmonise VAT rates for hot food in his “omnishambles budget” and Philip Hammond had to backtrack this year on raising national insurance for the self-employed. The IMF also recommended “reducing the tax code’s bias towards debt” and scrapping the triple lock on state pensions.

John McDonnell, the shadow chancellor, said: “The IMF has played the role of the ghosts of Christmas past, present and future to remind the chancellor that seven years of Tory failure is undermining our economy.”

### ‘Mansion tax’ proposed for £10m homes in Westminster

Westminster city council is asking its wealthiest homeowners for a voluntary council tax supplement to fund services that have been abolished over seven years of budget cuts.

The “mansion tax” plan would double council tax from £1,376 to £2,752 a year for the 2,000 owners of properties worth more than £10 million, which could raise up to an additional £2.75 million.

The borough is polling the 15,000 residents who pay the present top band of tax to see if they would back plans for an optional contribution.

Councils have borne the brunt of austerity since 2010. At the same time, social care costs have soared, putting their finances under severe strain.

However, they cannot raise basic council tax by more than 2 per cent without calling a referendum.

Nickie Aiken, the Conservative leader of Westminster city council, said that the rules were highly restrictive.

“We need to come up with new ways of funding to start a debate with government,” she said. “There is no appetite from central government to revaluate council tax, but we believe we have come up with a method which will allow the well-off to voluntarily help those just about managing.”

The policy would raise a sum dwarfed by the council’s £850 million of annual revenues but, if successful, Ms Aiken hopes it will encourage the government to introduce new council tax bands or order the first revaluation since 1991.

House prices in Westminster, which has the lowest council tax in the country, have soared in the past 20 years. The average property last year sold for £1.46 million.

Ms Aiken said that rich residents had expressed a desire to contribute. The council’s four-week poll will end on December 15 but has already had positive feedback. “There is an appreciation of what we are trying to do. We’ve even had a couple of cheques,” she said.

Ray Boulger, technical manager at the mortgage broker John Charcol, said that the idea of creating a new range of council tax bands “was much more sensible than a mansion tax”.

### Toys R Us to close at least 26 stores under CVA

Toys R Us has entered into a Company Voluntary Arrangement (CVA) and expects to make redundancies and close branches as it looks for a way to transform its business model.

The troubled retailer said the business had been making a loss in recent years and blamed its warehouse-style stores for being unsuitable for the modern retail market.

Under the CVA process, Toys R Us UK has submitted a plan to its creditors to restructure its finances and operations. If approved, the CVA plan would substantially reduce the UK company's rental obligations by closing at least 26 stores.

The business currently employs 3,200 people, and as part of the CVA process, it anticipates it will make redundancies.

Steve Knights, managing director of Toys R Us UK, said: "Like many UK retailers in today's market environment, we need to transform our business so that we have a platform that can better meet customers' evolving needs. The decision to propose this CVA was a difficult one, but we determined it is the best path forward to make essential changes to the business.

"Our newer, smaller, more interactive stores are in the right shopping locations and are trading well, while our new website has generated significant growth in online and click-and-collect sales. But the warehouse style stores we opened in the 1980s and 1990s, while successful in the early days, are too big and expensive to run in the current retail environment. The business has been lossmaking in recent years and so we need to take strong and decisive action to accelerate the transformation."

He added: "We recognise this process will affect many of our team members and their families, so we are committed to keeping all of our staff informed throughout this process. Our teams will continue to play a key role in turning our business around."

The creditors will vote on the CVA on 21 December 2017. The company intends to commence store closures in Spring 2018.

Alvarez & Marsal is serving as restructuring advisor to Toys R Us UK and Kirkland & Ellis is acting as principal legal counsel to the company.

Property reacts

John Webber, head of rating at Colliers International, said: "The government decision to delay the business rates revaluation in 2015, certainly has had an impact on Toys R Us. By delaying businesses rates reaching their true levels, the stores in some parts of the country have been forced to pay for the better ones for far too long in terms of business rates.

"Taking a particular store as an example, such as Exeter, a rates bill of around £340,000 in 2016/17 should have been reduced to around £225,000 following the revaluation, a decrease of around 34%. But because of phasing, reductions have only been a small percent this year and next. The business therefore will overpay in excess of £800,000 in business rates on that store alone, than it should have done if the revaluation had occurred in 2015 and any reduction in liability implemented immediately, as opposed to being phased. That's a lot of Barbies to sell!"

## Stores close as business rates make it harder to compete with online trade

An average of six shops a day have been lost in England and Wales over the past seven years, an analysis of government data has found.

Between 2010 and 2017, the lifespan of the last business rates regime, 15,856 shops were either demolished or converted into homes or other uses as retailers struggled to cope with the popularity of online commerce.

There has been little reprieve under the new business rates regime, with 1,364 stores hit by insolvencies so far this year, according to the Centre for Retail Research.

Business rates, a tax on commercial property that generates £30 billion a year, have long been a source of anger for retailers because they are linked with property value rather than underlying trading performance. Shop owners say the tax leaves them struggling to compete with online retailers, who have a much lighter burden. Business rates experts say the number of closures underlines the urgency of coming up with a fairer tax regime.

Last month Feather & Black and Multiyork fell into administration, affecting 74 stores. Thomas Cook and Toys R Us have announced that they expect to shut 75 stores between them, while there was a further blow to the high street last week when Royal Bank of Scotland announced that it would shut one in four branches.

Despite the decline in the number of shops, overall rateable values, which are used to calculate the business rates shops must pay, have risen by £286 million since 2010.

Sajid Javid, the local government secretary, has promised to “level the playing field” between online retailers and high street shops. Philip Hammond, the chancellor, said in the budget in March that the digital part of the economy needed to be better taxed. However, the government’s position paper on the tax challenge posed by the digital economy, released in the autumn budget last month, did not mention business rates.

Alex Probyn, UK president of Altus Group, the rates advisers who conducted the research, said: “The face of retail is changing. The conversation now to be had, which is a difficult one, is how to level the playing field between bricks and clicks. Property taxes should be about physical property. It’s the wrong mechanism for taxing digital businesses. An online sales tax might be used to level the playing field, but it does not belong within a system based largely on rental values.” He said revenue from any online tax could be ringfenced and used to provide relief for traditional bricks and mortar retailers.

Last month’s budget did provide some assistance for those struggling with business rates, with the annual increase in the tax being switched to a lower measure of inflation two years earlier than expected. This should save businesses an estimated £210 million over the next two years.