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UNITED KINGDOM – JULY 2018

Retailers call for online tax to solve business rate inequality

London's West End retailers are calling on the Government to introduce a business rate for online businesses to eliminate what it is calling "inequality between high street and online retailers", which it adds will also boost the high street by cutting their business rates by 5 billion pounds a year.

The ambitious plans come from the New West End Company, which represents more than 600 retailers, hoteliers and property owners in London's West End, and it states that the introduction of a 1 percent tax on online businesses could cut business rates by an average 17.5 percent at no cost to the Treasury.

The extra money raised would be used to reduce the rates burden for other businesses, said the New West End Company, while also solving the business rate inequality, as currently, online businesses pay just one-tenth of the business rates paid by high street businesses.

According to the British Retail Consortium, retailers account for 6 percent of GDP but pay 26 percent of business rates. In addition, New West End Company's figures show that last year's rates revaluation saw business rates for West End stores rise by an average of 80 percent, with some shops experiencing an increase of over 130 percent.

It notes that the proposed new online tax would apply only to businesses that are wholly or largely online so that high street retailers who have a strong online presence are not taxed twice, and would help high street retailers, restaurants and bars, who typically use larger store spaces in prime locations.

For instance, in 2017, Marks and Spencer paid 184 million pounds in business rates, with revenue of 9.6 billion pounds, while Amazon, with revenue of 7.3 billion pounds in the UK, paid just 14 million pounds. The New West End Company states that if Amazon had paid the same proportion of their revenue as Marks and Spencer they would have paid 140 million pounds.

Sir Peter Rogers, chairman of New West End Company said in a statement: "Business rates are currently the biggest tax that high street retailers pay, accounting for nearly half [45 percent] of retailers tax bill.

"The current structure of business rates, whereby they are linked to the value of occupied property, not economic performance, provides online retailers with an unfair advantage and a 90 percent rate discount in an already struggling bricks and mortar retail environment."

Rogers added: "London's West End is a major contributor to the UK economy with retailers generating over 9 billion pounds in sales a year and employing over 80,000 people, if we do not act now we damage the ability of those business to survive and continue to drive our economy."

The proposals, which come from a report commissioned by New West End Company from Arup and local government expert Professor Tony Travers, have been submitted as written evidence to the House of Commons Housing, Communities and Local Government Select Committee high streets inquiry into "high streets and town centres 2030".

Experts call on hotels to get business rates relief to compete with Airbnb

Rating specialists have called on the hotel industry to appeal against heft business rates in light of the rise of Airbnb.

Figures compiled by Colliers International and Hotelschool in The Hague show that nights booked with Airbnb in London during 2017 were up 45 per cent.

But bookings for traditional hotels were up just 4.6 per cent.

Colliers described the current business rates system as "unfair", saying it gives an advantage to Airbnb and similar platforms.

"This is just not a level playing field, " said John Webber, head of rating at Colliers International. "Not only is Airbnb attacking hotel market share, by offering cheaper room rates, but is able to do this through the unfair advantage of not paying business rates."

Airbnb still only accounts for a small portion of the market. Last year it was used to book 6.7m overnight stays in London compared to 91m in hotels.

But Colliers argues that the platform should be treated as a "material change" in the industry which affects rateable value of hotels.

Some of London's top hotels have seen their business rates more than double in the last year.

The Dorchester Hotel's rateable value rose 131 per cent under the revaluation, almost doubling its bill to £600,000.

Sunderland owners start fight for fairness, with business rates and policing costs in their sights

Sunderland's new owners believe the club is paying over the odds for policing and business rates, and it could hamper their promotion bid next season

Sunderland football club say they will hold talks with Northumbria Police over the size of their policing bill.

Figures revealed this week show that Sunderland paid more than twice as much as Newcastle United last season despite the average crowd at the Stadium of Light being almost half that at St James' Park.

The Black Cats have also launched an appeal against their £2m business rates bill claiming it must reflect the club's drastically reduced income caused by back-to-back relegations.

The club's business rate bills, covering the Stadium of Light and Academy of Light, are the largest outside the Premier League, and the figure is far in excess of those of their League One rivals who on average pay less than £80,000 per year.

Sunderland's bill is way out of kilter with other clubs in their division and is also much higher than the vast majority of clubs in the Championship, with only Aston Villa paying anywhere near the same amount.

The rateable value of business properties are set by the Valuation Office Agency, part of Her Majesty's Revenue and Customs, and were reassessed in 2015 for the first time since 2010, and will not be looked at again until 2021.

The latest valuations - which take into account turnover - came into force in April last year when the club was still in the Premier League and enjoyed a turnover of more than £123m.

But since then the Wearsiders have dropped two divisions to League One, and the club's turnover next season is likely to be somewhere in the region of £17m.

That means the club's business rates as a proportion of turnover have increased more than seven-fold, rocketing from just 1.6 percent in 2017 to around 12 percent next season.

And the imbalance between Sunderland's rates and those of other clubs in the third tier will put the Black Cats at a significant financial disadvantage as new owner Stewart Donald attempts to plot a way back to the Championship at the first attempt.

In addition to the club's high business rates, Sunderland's policing bill from Northumbria Police last season was £347,618 - more than double the figure that Newcastle paid.

The Black Cats played one home game more than Newcastle last season in all competitions, but the average league gate at the Stadium of Light was 27,635 compared to 51,992 at St James' Park.

Sunderland executive director Charlie Methven said: "When we came to the club it became clear to us pretty quickly that other clubs have come to view Sunderland as a portable gravy train over a long period of time.

"It may be that the day-to-day absence of the owner led to a rather complacent 'take-take' attitude.

"It is time for the club to start fighting for what is fair and a lot of time over the last two months has been taken up with talks with various stakeholders in the club and other interested parties with a view to starting that process.

"But it has also become apparent that the public sector regards the club as easy pickings, with very high business rates and also policing costs.

"We are very happy to pay our way and pay our share, but the amounts we pay must be fair.

"By way of comparison, next season we would be paying around ten times the business rates of many clubs in the Championship and 25 times the business rates of some clubs in League One.

"To that end, we have started an appeal against our business rates bill and we will also seek discussions with Northumbria Police regarding the cost of policing games at the Stadium of Light."

Money collected from business rates is split equally between central government and local councils, who use it to fund services.

Businesses are entitled to ask the VOA to review their business rates if their circumstances change, and if they are unsuccessful they can make a formal challenge, and ultimately ask tribunal to make a decision.

Sunderland are not the first club to challenge the rateable value assigned to their ground.

Wigan Athletic have been relegated three times in six years and are heading to court to argue that the taxman should take into account the loss of revenue caused by relegation when setting business rates.

If their challenge in the lands chamber division of the upper tribunal, which hears rates appeals, is successful the Latics could receive a rebate - and the case could set a precedent for other clubs, including Sunderland.

After Chroniclelive revealed the policing bill on Monday Northumbria Police Chief Superintendent Sarah Pitt said: "The cost of policing is based upon rates set by the Home Office and not by Northumbria Police.

"All bills relating to policing football matches are then agreed with the football clubs.

"We have already praised fans of both Newcastle United and Sunderland AFC for their good behaviour over the course of last season and we had very little trouble at either St James' Park or the Stadium of Light.

"Our football fans are among some of the most passionate in the world and are a real credit to the region. We are looking forward to working with them again when the season starts next month."

The solution to the problem of business rates is obvious – base them on land value

Louis XIV's Finance Minister Jean-Baptiste Colbert once described the art of taxation as "plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing". On that measure, business rates must be the most painful method of goose plucking ever envisioned.

Few taxes attract more ire. When we surveyed 491 business-owners for the All-Party Parliamentary Group (APPG) for Entrepreneurship, over half thought that business rates were damaging to entrepreneurship in the UK (more than for any other tax).

Business rates do need reform, but it's important to correct a common misconception.

Economists distinguish between legal and economic incidence. In layman's terms, who signs the cheque to HMRC isn't always the one who pays. Take the Soft Drinks Industry Levy, the manufacturer may pay the taxman, but it's those who consume Coke and Pepsi that bear the burden through higher prices.

When it comes to business rates, economists believe that it's the landlords and not businesses who really pay. The logic runs as follows. Most goods are determined by a mix of supply and demand. But when the supply of a good is fixed, then the price is determined by demand.

Because the supply of commercial real estate is relatively fixed due to restrictive planning controls, the price of occupancy (rates plus rents) is determined by the highest amount a company is willing to pay.

Businesses are still only willing to pay so much to occupy a premise, so when rates rise, landlords simply can't charge rents as high as before.

The theory's backed up by solid data. Research from the British Property Federation found that in response to a rate rise, rents would fall by around 75 per cent of the initial rate rise after around three years. In the long-run, landlords, not businesses, pay.

Any attempt to level the playing field between Amazon and the high street by cutting rates would fall flat. Serving little purpose other than to pad the pockets of commercial landlords.

However, the three-year transition is painful and the public most likely wouldn't buy the argument that landlords are the ones really coughing up.

It's not helped either by the fact that incorrect valuations are not uncommon, while the appeals process is costly and bureaucratic.

It's as if business rates were designed to be as unpopular as possible.

While business rates often attract unfair criticism, there is still a strong case for reforming them. They're a half-good, half-bad tax.

Half-good because it's partially a tax on land, which is in fixed supply and is probably the most efficient way to raise tax out there. Half-bad because it taxes property improvements – a restaurant that installs a walk-in fridge or a shop that installs CCTV will be rewarded with a hefty tax bill. Manufacturers are hit hard by rate increases when they invest in blast furnaces, building berths or backup generators.

The solution should be obvious. Scrap the half-bad part. If business rates were instead assessed solely on land values, landlords would no longer be discouraged from renovating and improving their properties. By breaking down a barrier to investment, this reform would boost output, raise wages, and create jobs.

In addition to that, shifting the legal burden from businesses to commercial landowners should be a no-brainer.

Painful transitions would be unnecessary as companies would no longer be forced to get by while rents adjusted.

It would shred paperwork for business since most would never have to pay rates or appeal incorrect valuations. Under the status quo, fifty or more separate tax bills could have been filed from the same co-working space. If the legal burden was shifted, only one would be necessary.

Tax reform is often more popular in theory than in practice, but fixing business rates would boost growth and win votes.

'Double council tax on empty homes to ease crisis'

DOUBLING the council tax on England's 205,000 empty homes could bring thousands back into use and ease the housing crisis, according to town hall chiefs. And hitting absentee owners with tax bills of almost £5,000 for each B and D property empty for at least a decade would also raise money for cash-strapped councils.

Today the Local Government Association is urging peers in the House of Lords to back an amendment to the Rating and Council Tax (Empty Dwellings) Bill to give councils the power to increase the empty homes premium thresholds on council tax bills for homes left empty for between two and five years from 50 per cent to up to 100 per cent.

For homes empty for five to 10 years, councils would be able to raise the premium by up to 200 per cent and up to 300 per cent for homes empty for 10 years or more.

The council tax bill for the average B and D property is £1,671.

An extra £861 could be levied on all those vacant for more than two years, £2,659 for those empty for over five years and £4,565 for homes empty for at least 10 years. Cllr Richard Watts, chair of the LGA's Resources Board, said: "When we face a chronic housing shortage across the country it is wrong for so many homes to be left empty.

"Councils work hard to address the issue but the existing powers open to them are complex and difficult to use.

“Providing councils with the ability to charge more for empty homes would be a hugely positive measure which will enable councils to incentivise owners of long-term empty homes to bring them back into use.” Calling for other powers to help solve the housing crisis, he added:

“All councils should be able to borrow to build and keep 100 per cent of any Right to Buy homes that are sold to boost the supply of genuinely affordable homes with the necessary infrastructure.”

Latest Government figures show that English local authorities recorded more than 205,000 homes empty for more than six months – over 5,000 more than a year earlier.

Empty Homes director Helen Williams said: “Building new homes is essential, but so too is making the most of our existing properties. “The Government needs to explore additional measures to stop people buying and holding on to properties not to live in but to store and grow their wealth.”

Counties could be tapped for Crossrail 2 funds

People living outside London who stand to benefit from Crossrail 2 could be encouraged to help pay for the scheme, according to Crossrail 2 managing director Michele Dix.

Speaking to the City Hall transport committee, Dix confirmed that regions around London could be asked to stump up for the £31bn mega-project.

London has been asked to pay for 50% of the costs during construction, forcing those in charge of the scheme to look at innovative ways to find the cash.

Land value capture models have been examined, where a rise in the value of land as a result of Crossrail 2 would see owners contribute to the project.

“There are beneficiaries outside of London as well as inside of London, and it’s looking at mechanisms that perhaps could encourage contributions from outside London,” said Dix, adding the Community Infrastructure Levy (CIL), Development Rights Auction Model (DRAM) and road user charging are all being considered to maximise London’s contributions.

“There’s a huge amount of support in the counties and districts outside of London, particularly for Crossrail 2 a huge amount of support has been expressed. I think if the situation arises that we need [funding] sources beyond the ones I‘ve just described, then there would need to be conversations”.

On Wednesday the National Infrastructure Commission (NIC) backed Crossrail 2 in its first ever assessment of the country’s infrastructure needs over the next 30 years.

Campaign group London First infrastructure director David Leam told New Civil Engineer the NIC’s analysis showed the scheme was affordable for government and agreed other regions should help pay.

He said: “[The National Infrastructure Assessment] is saying that you can do this scheme at the same time as other investments like HS2, like Northern Powerhouse Rail.

“What it does mean is, in order to pull that off people will need to do their bit and that will mean that London will need to do its bit – whether it’s through businesses, residents, users of transport services or through developments. And Michele [Dix] is absolutely right: it’s not just London, it’s across the South East that will benefit. So beneficiaries should be seen in a slightly broader way.”

Will the UK's ailing retailers ever see the back of business rates?

Small business owners tired of having to cough up thousands of pounds in business rates each year might want to take it up with Queen Elizabeth – not our current monarch but the first of her name, who sat on the throne four centuries ago.

The roots of the much-maligned tax, which generated £29bn for the Treasury last year, can be traced back to the Elizabethan Poor Law of 1601, which granted parishes the right to collect cash to fund workhouses and food for the needy.

So perhaps it should come as no surprise that the calls for change are growing louder as rates, which are based on property values, are increasingly seen as the product of a bygone era.

Amid a slump on the high street that has seen several chains go to the wall in recent months, last week the British Retail Consortium called on the Government to freeze rates for two years while it comes up with plans to replace the current "unsustainable" system, which weighs particularly heavily on high streets.

That echoed a call by Bill Grimsey, the former Focus DIY boss, who has been leading a review of how to revive Britain's town centres, and suggested the "hated and outdated" system could be replaced by a flat tax on sales.

But while the Government has made a lot of noise about trying to help the high street, and introduced successive piecemeal reforms and rebates to the system in recent years, campaigners are likely to face a hard slog if they want to see the back of it any time soon.

The "multiplier" used to calculate rates is pegged to inflation but that hasn't stopped the overall burden on businesses from growing significantly in real terms over the years. The total take rose from 1.2pc of GDP in 2007 to 1.5pc in 2017, according to the Institute of Chartered Accountants in England and Wales, increasing the Treasury's annual receipts by 39pc over the same period.

That hasn't gone unnoticed on the high street. When Heddy Ghazizadeh opened his Middle Eastern meze restaurant Heddy's in leafy Wilmslow, Cheshire, 18 years ago, the burden of rates rarely crossed his mind.
But after taking over the neighbouring shop to expand its capacity to 38 seats and adding extra kitchen space, the bills began to grow.

"As it got near 2008, 2009, we were watching every penny and realised it was £8,000 one year, the next year £9,000, £10,000, £11,000. Now it's just under £12,000. "It's gone from being a small business expense to something that has become significant".

If you've got a tax where no matter how bad you're doing you still have to pay it, it's the sort of thing that makes people shut the doors

As they are based on rental values, rates place a significantly higher burden on property-intensive businesses, such as bricks and mortar retailers, than they do on more knowledge-based companies such as accountants, technology start-ups or pharmaceuticals makers. Retailers pay around £7bn per year in rates, 25pc of the total, according to the BRC, despite accounting for just 5pc of the economy.

It's not just local shopkeepers who have to shoulder a heavy burden either. Last week Sainsbury's chief financial officer Kevin O'Byrne complained on a conference call with reporters: "While we're the 70th largest company on the FTSE 100 we're about the 7th largest tax payer, and business rates is about 60pc of our tax bill."

Part of the challenge for small businesses that want to get their head around the system is its fiendish complexity. A company's rates bill is based on the so-called rateable value of the property they inhabit, an assessment of how much it would likely cost to rent, which is updated every five or so years.

The valuation process is less than straightforward, with several factors, such as whether shops have a large frontage (as opposed to being narrow and deep) and if a building has a lift, being assessed. Businesses that feel they have been valued - unfairly can challenge the decision in court. The system has "spawned endless amounts of consultants, lawyers, appeal judges and all that kind of stuff", says Grimsey.

Once the rateable value is determined it is then multiplied by a rate set by central government to determine the annual bill. This "multiplier" has risen from 34.8p in the pound when the system was first adopted to 49.8p this year. Phil Vernon, who runs

PwC's rates team, says the system has been made all the more complex as successive chancellors have tinkered with it to lighten the load on certain businesses.

"The Government constantly introduces relief and exemptions to the rating system as a substitute for reforming it," he says. Another complaint is that unlike corporation tax, which is levied on profits, rates take no account of ability to pay. Edward Fisher's business Bluespark, which makes and sells car tuning equipment out of a Sunderland industrial estate, has been taken out of the rates system thanks to the Government's decision to raise the threshold for small business relief.

The Government constantly introduces relief and exemptions to the rating system as a substitute for reforming it

But he says the annual £3,500 bill it had to shoulder while getting off the ground was a big burden.

"When you're profitable it doesn't really matter," he says. But "if you've got a tax where no matter how bad you're doing you still have to pay it, it's the sort of thing that makes people shut the doors". With the high street in crisis and a major shift of consumer spending to online, there are growing calls to move the tax burden away from bricks and mortar retailers and towards e-commerce firms, which tend to have much smaller bills.

Several options include Grimsey's sales tax or locally set corporation taxes. A levy on margins has also been floated but a lot of online retailers feel they are being unfairly maligned.

"We do use less valuable space than a bricks and mortar retailer proportionately and therefore we might proportionately pay less business rates," admits Tim Steiner, boss of online supermarket Ocado. "But we use more fuel because we deliver it into a customer's home and duty on fuel is a higher percentage of fuel costs than rates as a percentage of property cost."

While there's mounting pressure for a major overhaul, the Government has shown few signs it is going to enact one. In a letter to the Treasury select committee earlier this month, Philip Hammond, Chancellor, acknowledged the "high fixed costs" some businesses have to bear because of rates. But he defended the system on the grounds that property taxes are "easy to collect, hard to avoid [and] relatively stable compared to other taxes".

While we're unlikely to see the back of rates anytime soon, those struggling under the weight of big bills can take a crumb of comfort from suggestions that getting rid of them might not do all that much good anyway.

Some economists, including Paul Johnson, head of the Institute of Fiscal Studies, have argued that such a move would simply result in much higher rents, as landlords raise what they charge to the highest level their tenants can afford to pay.

So even if the Government does have a sudden change of heart, it may not be the shot in the arm Britain's struggling high streets desperately need.

Written Statement - Non-Domestic Rates Revaluation

The next non-domestic rates revaluation in Wales will take place in 2021, in line with the next revaluation in England.

Bringing the revaluation forward by a year from 2022 will mean the rateable values on which non-domestic rates bills are based will reflect up-to-date market conditions and enable ratepayers in Wales to plan ahead.

This decision provides certainty for ratepayers as the Welsh Government explores more fundamental reforms to the system.

Last year, I outlined our approach to reforming local taxes – council tax and non domestic rates – as an integral part of the wider local government finance system. I published an update on progress last October and will publish a further update in the autumn.

In reforming the business rates system, our aim is to provide greater resilience for local authorities; fairness for citizens and businesses and ensure there is sustainable funding for vital local services.

We have already achieved a number of our short-term goals to develop a Welsh non domestic rates system, including placing our small business rates relief scheme on a permanent footing; changing the basis for uprating the multiplier and consulting on improvements to the administration of rates.

We are now considering wider and longer-term questions about business rates, including whether different approaches to property valuation in Wales are viable; whether they are fairer and whether there are benefits for public services and the economy in Wales. We are also looking at the potential of other options, such as a land value tax, as an alternative way of raising revenue from non-domestic property in the longer term.

Local authorities are being invited to bring forward proposals for how regional approaches can help to drive economic growth as part of city and growth deals in Wales. I have recently agreed an in principle approach for the local authorities involved the Swansea Bay city deal to retain 50% of the business rates generated by projects in the deal.

More fundamental changes to business rates in Wales in the future will need to be considered and developed over the longer term. However, in the short-term, I want to be confident that any changes we make to the business rates system now, does not limit or rule out our options for future developments if these would better meet the needs and objectives for Wales.

Given the range of options which may emerge from the exploratory work we are carrying out, it would be premature at this stage to commit to following the approach announced in England of adopting a three-yearly revaluation cycle after 2021. I have not ruled this out but I am keen to examine all options for Wales.

The Welsh Government will take advice from experts and work with local government and stakeholders as we take this work forward. This work will be carried out openly and proposals will be shared as they are developed.

The Welsh Government will continue to work closely with the Valuation Office Agency to ensure the revaluation process for 2021 is carried out in a timely and accurate manner, reflecting our ambitions for people and businesses in Wales.

Hammond promises tax on digital firms as business rates weigh on struggling retailers

Business rates are hitting the high street too hard, the Chancellor Philip Hammond has admitted.

These taxes are calculated based on the cost of a property that a business occupies and, with prime locations, high street retailers have been hit hard compared to their online competitors. Many are already struggling, with mounting numbers of store closures.

Retailers have complained that the revaluation exercise undertaken last year has left them with higher bills in an already challenging climate.

The Chancellor said he would continue efforts to “find a better way of taxing the digital economy” in order to reduce the tax advantages for online retailers compared to high street stores.

Mr Hammond said: “The Government recognises that business rates can represent a high fixed cost of some businesses.”

However, Mr Hammond has refused to bow to pressure from MPs calling for a tax overhaul, saying it supports the stability of local government funding.

The release of the Chancellor’s letter to MPs comes days after retail veteran Bill Grimsey called for “decisive action” in support of retailers and an abolition of business rates in order to help struggling high street firms.

Many efforts have been made to mitigate the impact of business rates, including a relief fund worth £300m. This administration of this fund has, however, been very slow, according to several critics, including the Federation of Small Businesses.

The new business rates system also made it harder to challenge valuations via an appeals process set up for firms, according to data released in February.

The number of appeals had dropped by more than 99pc from when the system was introduced in April 2017 to the end of last year – a collapse which may also have been partly due to the £500 fine businesses face if they are deemed to have wrongly appealed.

Mr Grimsey has proposed scrapping the tax altogether.

However, such a move could prove challenging as it generates £25bn a year for the Treasury.

Chairman of the Treasury select committee and Tory MP Nicky Morgan said:"The Committee is increasingly concerned with the financial burden that business rates are placing on high street businesses."

Ms Morgan added: "We are likely to scrutinise business rates further as part of our Autumn Budget inquiry later this year."

Abolishing business rates is not the answer to the high street's problems

Nobody much likes paying tax. From time to time most taxes come under the spotlight for their perceived unfairness or economic cost. The latest to do so is business rates, a tax on businesses that depends on the value of the property they occupy.

The high street retail sector is particularly up in arms. It looks like the tax system gives online retailers a competitive advantage. They will have to pay some rates on their UK warehouses, but, relative to their turnover, a great deal less than high street shops. Given all the problems assailing the high street, surely this is a tax ripe for reform.

Well, business rates certainly are not perfect and they could do with some reform, but cutting or abolishing them for high street shops probably would not be as helpful as you might think. And, of course, any cut here would have to be matched by raising some other tax elsewhere.

By the way, one thing is important to get clear up front: business rates have not been increased overall, despite what you might have understood. As a result of a revaluation exercise they have gone up in some areas, notably London, and gone down elsewhere, particularly in the north. That's what is supposed to happen when one area gets better off relative to another. This is an additional cost to businesses in London that will complain, and a benefit to those in the north that probably won't be writing "thank you" letters.

So why wouldn't cutting business rates help all that much in the long run if your aim is to preserve high street shopping? Surely if you reduce the costs to me of running my shop, I am more likely to stay in business. There's the rub. While cutting business rates might reduce my costs in the short run, it won't make much difference in the long run. I'm not only paying a business rates bill; I'm also paying rent to the owner of the shop and of the land on which it sits. Because there is only a limited amount of land for shops, especially in places such as central London where rents and business rates are highest, cutting business rates will largely simply lead to higher rents.

It won't necessarily ever feel like that. I'll still be paying the bill. And the long run isn't much help if I'm stuck with a rental agreement that doesn't allow the rent to adjust for several years. But the overall point stands. Cutting business rates will help individual high street stores in the short run, but will not help in the longer run. It is a misunderstanding of basic economics to think otherwise. The biggest winners from a cut in business rates will be the biggest landowners — the Duke of Westminster, the Queen — and not the high street shops, or their customers.

It is so important to think about the overall effects of taxes. An individual business might be struggling to compete with an online rival, might see that it has costs that the online competitor doesn't face, might see that a whacking great business rates bill is a large part of those extra costs and might conclude that business rates are much of what's driving it under. It might not realise that if the business rates bill wasn't there, its rent would be almost pound-for-pound higher, so most of its cost disadvantage would still be there and it'd still be struggling to compete with its online rival.

All that said, there are lots of things wrong with business rates. Revaluations need to be more frequent — and, indeed, that is what is happening. The fact that there is some relief for vacant property, costing approaching £1 billion a year, means that some properties are left empty when they would otherwise be in use, which is an awful waste. The danger with having no such relief is that it provides an incentive to demolish the building. This happens. Such problems illustrate why it would be much better to have a tax on the value of the land on which the business sits rather than the rental value of the property. That's the one big reform to business rates we should be considering.

There are others. The fact that business rates are not applied to agricultural business is indefensible and adds costs to others while benefiting the owners of farms for no obvious reason. There is probably a good case for trying to tax the owners of properties rather than the tenants, if only to make the actual incidence more transparent.

None of that, however, addresses the problems of high street retailers. Here we need to be much more clear-headed about the problem. With the advent of significant online retail, it is obvious that the amount of space on the high street dedicated to selling the same stuff that is sold online will fall. Any other result would be bizarre. We will see — are seeing — fewer traditional shops and more cafés, nail bars and estate agents. There might be very good social reasons for government intervening to mitigate that effect, especially in poorer and more vulnerable communities. The point is that cutting business rates will not achieve that end.

The realpolitik of all this is also rather important. Business rates bring in a handy £30 billion a year for government. And they form a pretty easy, consistent revenue stream. This is not something that a cash-strapped Treasury is likely to put at risk.

If this all sounds terribly unsympathetic to business in general and retailers in particular, it is not intended to be. The problems are real and need a solution. It's just that cutting business rates is not the solution.

Britain's retailers are too quick to blame business rates

Shopkeepers railing against the levy should look a bit closer to home
It is a remarkable fact, but few businesses ever seem to fail because of excessive leverage, misconceived strategies, or inability to meet the needs of their customers. They struggle because banks unreasonably refuse further credit, or because of unseasonable weather, or some unexpected adverse effect, such as a terrorist attack. Most often, however, their difficulties are the result of some insufficiently supportive government policy. The corporate executive who says "we got it wrong" is as rare as the politician who makes a similar admission.

So the nation's shopkeepers have spent recent weeks explaining how their problems are the result of the excessive and unfair burden of business rates. Excessive because rates on commercial premises make up about 5 per cent of total tax revenue, with retail accounting for about a quarter of that total; unfair because they fall more heavily on bricks-and-mortar retailers than on their online competitors.

Pressure on the retail sector has been intensifying for a decade. In the years of the credit boom finance was cheaply and readily available to fund new property development. It was also readily and cheaply available for leveraged private equity purchase of retail chains. But since 2008 consumer expenditure has stalled. Shopping has become a diminishing fraction of household spending, and online sales have grown.

So the weakest retailers have been struggling — the dowdy department stores (we all know which they are, even if we haven't recently visited one); the groups with financing structures too precarious to survive any setback. And surely it should not be a surprise that the market for imported tat and wholesalers' overstocks at £1 per item has its limits. Even the stronger chains have had to review their less profitable stores. All that is an appropriate market response to evident overcapacity. There will be fewer retailers, fewer shops and less popular high streets and shopping malls will struggle until some sort of equilibrium is restored. So where do business rates come into it all?

Business rates are levied on a notional rental value of commercial property, and the rate of tax (the multiplier) is increased annually in line with the retail prices index. These assessed rental values are subject to revision every five years. The effect of revaluations is to leave the total rates bill unchanged but to redistribute it in line with changes in relative rental values. The latest revision, which had been postponed for two years to avoid an unwanted clash with a general election, came into effect in April 2017. Some pay less, but those who pay more make more noise.

Based on estimated rental value, business rates are a tax on structures and on site values, since property consists of both a building and the land it sits on. For a logistics warehouse outside a northern town, the value of the property rests almost entirely in the building; for a convenience store in central London, the value of the property is almost entirely in the site. And simple economics suggests that a tax on a building will fall mainly on the people who use the building, while a tax on land value will fall mainly on the people who own the land. The same simple economics suggests that a tax on valuable land is quite an efficient tax — land in central London is not going away, or falling out of use, however much you tax it. But they are less favourable to the tax on structures — that logistics warehouse might move, or shrink.

The critics of business rates have the wrong end of the stick. First, and fundamentally, they have failed to recognise that the core problem is one of overcapacity in retailing. Shopkeepers are victims of their own historic hubris, not government greed. Second, those critics have not thought through who would be the main beneficiaries of the relief they seek. The gains would not go to struggling discounters and outmoded department stores. The winners would be the holders of the most valuable land in England. Think of the big landowners of central London and your thoughts should turn to the Queen, the Duke of Westminster and Land Securities.

Finally, there is little truth in the claim that the present system unduly favours online retailers. True, the cost of retailing from Amazon's fulfilment centre near Rugeley is a lot less than the cost of selling from a shop in Bond Street. But only a small part of that difference is accounted for by business rates. And, paradoxically, once the consequential rise in land values is taken into account — almost none at Rugeley and substantial in Bond Street — a reduction in business rates might actually reduce Amazon's costs more than those of Tiffany's. Anyone who thinks that business rates are an important element in the rise of online retail really has little grasp of what is going on in the industry.

So what should be done about business rates? The government is in the early stages of a programme to restore control of business rates to local authorities. While this seems welcome, it carries the danger that irresponsible councils will see local business as a cash cow to offset inadequate central government funding. The government has also proposed to revalue at three rather than five-year intervals. This would probably reduce the volume, even as it increased the frequency, of cries of pain.

Recent years have seen two reports on the future of high streets. One, by retail consultant Mary Portas, suggested a range of policies to sustain the status quo. Another, more perceptive, from Bill Grimsey, former head of Wickes, Iceland and Focus DIY, took a broader perspective. We want vibrant centres in our cities and towns. But not streets lined with identical collections of outlets of the same chain retailers. Think of high streets as community hubs rather than shopping malls.

Chancellor admits to business rates' effect on high street but no reform yet

Chancellor Philip Hammond has finally admitted that business rates are hitting the high street too hard, but has stopped short of making any immediate changes to the system.

In a letter to MPs seen by the Daily Mail, Hammond refused to bow to parliamentary pressure to overhaul how business rates are charged, saying it supports the stability of local government funding.

Business rates tax generates an estimate of £25 billion worth of revenue a year for the Treasury.

However, Hammond suggested that online retailers may soon be subject to a tax system of their own as he confirmed he would continue finding "a better way of taxing the digital economy" in order to reduce the tax advantages they have compared to bricks-and-mortar retailers.

"The government recognises that business rates can represent a high fixed cost of some businesses," Hammond said.

Treasury select committee chair Nicky Morgan MP echoed the Chancellor's comments.

"The committee is increasingly concerned with the financial burden that business rates are placing on high street businesses," she said.

She added: "We are likely to scrutinise business rates further as part of our Autumn Budget inquiry later this year."

The comments from Hammond and Morgan come amid a tumultuous week for the ongoing debate on business rates and high street retail.

On Wednesday, the British Retail Consortium ramped up its battle against business rates by urging the government to implement a three-year freeze on increases until 2021 to allow for the “reinvention” and modernisation of retailers at a crucial time.

On the same day, a review conducted by a team led by retail expert Bill Grimsey called for “decisive action” to support retailers by scrapping business rates all together.

Meanwhile, earlier today the New West End Company – which represents over 600 retailers in London’s West End district – published a report that recommended replacing business rates with a revenue-based tax for businesses that are wholly or largely online.

It said the extra money raised through this could be used to reduce the rates burden for other businesses.

The government has attempted to mitigate the impact of business rates since its revaluation in April last year in various ways, including £300 million worth of relief that has met criticism for the lack of speed in the administration of these funds.

The new business rates system also made it harder to challenge valuations via an appeals process, according to data released in February, which includes a £500 fine businesses face if they are deemed to have wrongly appealed.

Business rates are calculated based on the cost of a property that a business occupies.

Leaders across the retail industry and the government have vocally opposed the tax, with many retailers left with higher bills amid challenging market conditions

Tesco chief executive Dave Lewis, Sainsbury’s chief executive Mike Coupe, Bank of England governor Mark Carney, The Entertainer chief executive Gary Grant, Argos chief executive John Rogers, retail expert and TV personality Mary Portas and numerous other high profile names have also flagged the tax for damaging the retail industry.

IRELAND: Boost supply of homes, urges IMF

The IMF has urged the Government to redouble its efforts to build new homes and reduce the hoarding of land.

Gradual increases in the local property tax, as well as the introduction of new income-tax brackets, should also be considered.

In an upbeat report, the Washington-based fund predicts the Irish economy will continue to grow strongly over the next few years.

But in the so-called Article IV assessment on Ireland, the IMF also underlines key challenges, from housing to potential economic shocks from abroad, which could harm Irish prosperity, including the US corporate tax cuts and the EU’s proposed tax-harmonisation scheme.

“While the outlook remains positive, lingering crisis legacies, rising housing prices, and external downside risks — mainly from resurgent global protectionism, adverse effects from Brexit, and ongoing changes in the international tax landscape — pose challenges,” according to the IMF board of directors.

On housing, the IMF executive board urged the Government to renew its efforts to expand house-building. Its directors “considered that taxation could be used more actively to reduce land- and property-hoarding, and that measures to improve housing affordability should be well-targeted”.

More money can be raised from the Local Property Tax and it said the Government, after freezing the tax for a number of years, now “might consider a gradual” increase to match higher property prices.

It wants to reduce the number of low Vat rates and again called for the Government to look at ending the preferential tax on diesel.

The report's recommendations on reforming the income tax regime are particularly detailed. It suggests an earlier entry point for workers to start paying income tax, by "further streamlining tax credits and allowances" and introducing more income-tax brackets, citing Austria, where the number of income-tax brackets was increased to seven, from four, in recent years.

In its overall assessment of the risks facing the economy, it rates as high a tightening in global interest rates, as well as any potential weakening of growth in the major economies.

External economic shocks could be particularly severe, because government revenues are unusually skewed to the corporation tax paid by a handful of multinationals.

And it estimates that half of all corporation receipts came from US multinationals.

However, it rates as low the potential risk of a re-emergence of a credit bubble fuelling house prices and a return of a property bust.

SCOTLAND: CBI Scotland director Tracy Black warns the SNP's rates reform will hit companies with a triple whammy of tax rises

CBI Scotland director Tracy Black has warned that Scottish government plans to make companies based in out-of-town locations pay additional business rates will leave employers facing a triple whammy of tax rises compared with their counterparts in England.

Holyrood plans to launch three pilot schemes that will allow councils to impose a business rate surcharge on "out-of-town ratepayers or predominantly online ratepayers" from 2020.

Much of the focus has been on the impact of the tax hike on out-of-town retail centres. But Black warned that the increases will also hit industrial and commercial organisations.

"These proposals will be a concern for many successful companies across Scotland," said Black. "Particularly as those most affected would be firms with a large economic footprint in local communities that could face the challenging prospect of a triple-tax burden when considered alongside the existing Scottish large business supplement and the apprenticeship levy."

She added: "Business may also question how these proposals fit with the Barclay review's stated goal to better support business growth and long-term investment."

Black's comments are the latest indication that CBI Scotland is taking a tougher stance with Holyrood on the increased tax burden that businesses in Scotland now face compared with their competitors in the rest of the UK.

Last month The Sunday Times reported that Scottish businesses will have paid an additional £200m in taxes at the end of the current financial year compared with their counterparts in England since the SNP doubled the large business rate supplement in 2016.

Businesses have also demanded clarity from the Scottish government on what constitutes an "online ratepayer". David Lonsdale, director of the Scottish Retail Consortium, said: "There is as yet zero clarity over what an online business is, and any type of company which operates predominantly online could be caught in the crosshairs of this new tax.

"We also have no idea whether this new local authority tax will be capped or even how councils will use the tax receipts."

The Scottish government has said proceeds from the surcharge will be used to support businesses in city and town centres but it has failed to provide any further details.

Stuart Mackinnon, from the Federation of Small Businesses in Scotland, said: "Some town-centre businesses feel they're treated harshly by the rates system in comparison to out-of-town supermarkets, shopping malls and online businesses. A proposed localised levy could address this problem, but the rates system is already complicated and any new levy could introduce unwanted additional complexity.

“There’s also a risk that smaller operators will get caught by any tax change, not just the multinationals.”

A Scottish government spokesman said: “These pilot schemes would start no earlier than 2020 and the lessons learnt from them would then be considered very carefully prior to any wider rollout beyond the initial pilot.”