Business Rates: an inquiry by the Treasury Committee

General Features

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The CIOT submitted comments to the Treasury Committee’s inquiry into Business Rates to scrutinise how government policy has impacted business. The Committee is examining how Business Rates policy has changed, including Business Rates retention, alternatives to property-based taxes, such as the proposed digital services tax, and how changes to Business Rates could impact businesses.

A significant part of the inquiry’s terms of reference concern economic matters, which lie outside the CIOT’s expertise and the majority of our members do not provide taxation advice or compliance services in relation to Business Rates. However, we were able to submit comments on one of the specific points raised in the terms of reference for the Inquiry regarding alternatives to property-based business taxes, which mentions the proposed digital services tax (DST), and some of the problems associated with property-based business taxes.

We agreed that the pillars of good tax policy which the Inquiry’s terms of reference identified were laudable aims for tax policy and to a large extent chime with the CIOT’s objectives for a tax system. These pillars are that tax policy should be fair, support growth and encourage competition, provide certainty and be coherent. With regard to fairness we commented that views may differ on what constitutes a fair tax. Fairness is to some extent a product or consequence of the intended tax base.

We also suggested that there may be other ‘pillars of good tax policy’ which are relevant to the consideration of Business Rates: for example, if the rationale for Business Rates is to provide local services, transparency as to where the cost of these services falls should be considered.

Alternatives to property-based business taxes, such as the proposed digital services tax (DST)

The difficulties being faced by many high street businesses which are struggling to remain competitive, and the substantial financial burden that Business Rates can represent on the high street, is often the starting point in the current debate on fairness in relation to Business Rates. The debate focuses on a comparison between businesses that may be similar in very high-level terms (such as the broad category of a retail business selling to customers in the UK) but operate in wholly different ways such as high street retailers that are reliant on retail outlets versus online retailers with lower reliance on commercial property. It is perceived that Business Rates operate unfairly because although online retailers pay some rates on UK warehouses or distribution units, the rates liability is relatively much lower than for high street shops. However, these debates around the competition between high street retailers and online retailers should not be conflated with the wider issue around the recognition of value created by business activity in highly digitalised businesses and the extent to which it is not currently recognised in the UK tax base. It is this latter point that the DST (which it is proposed will be introduced from April 2020) is intended to address and this is a very different target to the focus of property-based taxes.

The aim of the DST is to devise a system that recognises value created by business activity in highly digitalised businesses that is not recognised in the current tax base. In this aim it is an adjunct to corporation tax and has no bearing on property-based business taxes. Specifically, in relation to online sellers, the DST is aimed at taxing the perceived value created by users (which are the buyers and sellers for online market places) and not the sales/profits from the sellers themselves; the DST is not a tax on online sales. There is little crossover in the tax base of Business Rates and that for the DST.

The problems associated with property-based business taxes

With regard to the problems associated with property-based business taxes, we made the following points:

- In principle the taxation of land and property has several advantages in terms of collection and administration; ownership or occupation is reasonably easy to establish in order to identify a liable person, and property is fixed in a location making it an easy choice for devolution and local government financing;
- We suggested that the Committee referred to the IFS Mirrlees Review which examined the distortionary effect of Business Rates on companies' behaviour as what is taxed (business property) is an input to production; for example, where it is levied on commercial property investments, it potentially disincentives businesses from equipping or expanding; and
- Taxation of property value (such as Business Rates that are levied as a percentage of the estimated rental value of a property) require regular revaluations without which price variations lead to fluctuations in the amount of tax that needs to be paid. This leads to a requirement for an efficient and transparent valuation mechanism and related appeals system.

Our full response can be found on the CIOT website.