Business rates review: CIOT response

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The CIOT responded to the business rates call for evidence.

A theme of our response to the call for evidence is that while historically business rates were regarded as a property cost, they are now increasingly perceived as a tax, albeit one charged by reference to rental value rather than profit. There is therefore a case for making the business rates system more integrated with and aligned to the wider UK tax regime.

We pointed to areas where the principles of good tax design should apply to the business rates system, for example:

- There is a need for systematic regular evaluation of business rates reliefs.
- In common with the wider tax system, a clear statement of the objective of business rates reliefs is required.
- It is notable that business rates are not included in the tax gap; there is very little published data on existing business rates mitigation schemes and tax leakage.

We recognised the potential significant burden for businesses, particularly small businesses, of valuing their own properties within self-assessment for business rates, but suggested that a more limited alternative for larger businesses to opt into self-assessment with a risk based compliance system backed by powers and penalties could be explored.

We called for greater consistency and transparency around the criteria for business rates reliefs and the processes for claiming them. Consistency of application of the criteria for reliefs is a prerequisite for the government's long term commitment to any centralised form of digitalisation.

Capital values tax

A capital values tax model, considered as an alternative to business rates, would be payable by the owner rather than the occupier. We thought this transfer of liability from occupier to owner may not be as significant as it might first appear, assuming that a great deal of the effective economic cost already falls on the landowner. The transfer of liability would certainly be a fundamental change in practice with significant uncertainty in transition. A fully comprehensive record of ownership of property, both direct and indirect, would be needed. We pointed out that economists generally favour a land value tax as an intrinsically sounder system but at the cost of adding complexity in defining the land within the charge and developing approved methodologies for isolating the value of the unimproved land component.

Online sales tax

The review asks whether an online sales tax may offer a solution to the debate around rates burdens for retail outlets on the high street versus online retailers with lower reliance on commercial property. In our view, an online sales tax should not be seen as an alternative to business rates, as it would be aimed at different things.

Although it would be charged on some businesses that are perceived to be the online competitors of high street retailers, the resultant winners and losers would be much more complicated. There is a risk in a shift of the tax burden from business rates to a general online sales tax that the economic burden is transferred from landowners to consumers generally, including disadvantaged groups.

We observed that the rateable value of properties used by online retailers such as warehouses are often located in areas where business rates are low under the current system. This is a conscious choice of the way business rates are calculated and could therefore be changed to more accurately reflect the value being generated in and through these properties.

The CIOT's response to tranche one of the call for evidence is at: www.tax.org.uk/ref698. The CIOT's response to tranche two is available here.

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