Business rates revaluation 2023

General Features **Large Corporate** **OMB**

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Business rates revaluations are moving to a three-year cycle from April 2023. The CIOT responded to the consultation on the form of transitional measures to phase-in increases in rates bills for the 1 April 2023 revaluation.

The CIOT's Business Rates Working Group responded to the recent business rates consultation on the form of transitional arrangements for the 1 April 2023 revaluation (tinyurl.com/4xh2fpzf).

Business rates revaluations will move from the current five-yearly cycle to a three-yearly cycle, starting from the next revaluation taking effect on 1 April 2023 in England. Historically, revaluations have led to substantial changes in rates bills for taxpayers. Since 1990, governments have applied a transitional scheme to phase in increases in rates bills based on annual caps on the percentage by which a ratepayer's bill can increase for that year. The cost of the relief for those ratepayers facing increases is funded by other ratepayers by way of a transitional surcharge.

We said that in principle, more frequent revaluations that achieve the aim of allowing the full impacts of the revaluation to feed through to rate bills quickly should obviate the need for any form of transitional scheme. Transition is at odds with the objective of more frequent valuations as businesses do not benefit from reduced bills immediately. Similarly, businesses with higher rateable values are temporarily shielded from higher bills.

Historically, transitional schemes have been a somewhat blunt instrument when judged against the principles of good tax design. It is not predictable in its first year of operation and businesses have little time to prepare for the impact, given that the transition regulations are not generally issued until a few months before new year rates bills. Nor is it aligned with other relatively more targeted permanent business rates reliefs. The self-funding undermines the principle of tax neutrality by introducing an economic subsidy for one set of ratepayers funded by ratepayers whose bills are artificially high.

Despite the inherent drawbacks of transition, and depending on the outcome of the 2023 revaluation, there may be a case for retaining some limited form of transition for the 2023 revaluation only, given the exceptional circumstances of the Covid-19 pandemic.

Given the ongoing debate about where the burden of business rates lies and the fairness of that burden, we suggest the government should evaluate the implications of the shorter revaluation cycle and any transitional scheme for the effective economic burden of business rates and for economic coherence when compared to other models.

The full CIOT response can be found here: www.tax.org.uk/ref963

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