Significant changes are underway to business rates

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The CIOT has provided a briefing to parliamentarians on the Non-Domestic Rating Bill 2023 and responded to the consultation on disclosure of more information on business rates valuations.

The Non-Domestic Rating Bill 2023, that applies in England and in part to Wales, makes significant changes to business rates. It aligns business rates administration more closely with the wider tax system in particular by introducing a requirement for ratepayers to inform the Valuation Office Agency (VOA) when a business rates liability arises. This addresses a major gap in business rates and aligns business rates with other taxes. The changes follow the government’s review of business rates.

Three-yearly valuations

The Bill provides for three-yearly (instead of five-yearly) valuations. The next revaluation will take place in 2026. We agree that moving, initially at least, to revaluations every three years provides a balance between administrative cost and the need for regular revaluation to reflect economic conditions. However, given the rapidity of changes in business and shopping practices, a phased approach to achieving even more frequent (perhaps annual) valuations should remain under evaluation.

New reporting obligations

To support more frequent valuations and reduce the number of ratepayer appeals (known as 'Challenges'), the Bill imposes new duties on ratepayers to provide the VOA with information about the identity of the ratepayer, any changes to the property, and trade information used for valuation. Notification requirements will apply to ratepayers that qualify for full business rates relief, but not to exempt businesses. The information will have to be provided within 60 calendar days via a new VOA online facility.

The Bill also imposes a separate duty on ratepayers in England and Wales to provide a taxpayer reference to HMRC to allow data matching of tax and business rates information. The aim of better targeting financial support to businesses is obviously desirable. However, it is unclear how the data matching will enable this objective to be achieved as liability for business rates arises on a daily basis, while data on turnover and profits is provided to HMRC annually via the corporation tax or income tax return. The data that HMRC holds is therefore 'old' not 'current' and so may not readily be used to target reliefs.

We said that greater consistency and transparency around the criteria for business rates reliefs would help to ensure that reliefs are targeted more effectively.

Penalties

In designing the penalties regime to support the new duties, we agree that drawing on existing or proposed tax penalties regimes is sensible. However, we have some concerns about lack of consistency and non-alignment with existing tax penalty regimes.

Improvements relief

The Bill provides for a 12 month relief from higher business rate bills arising from improvements to an existing property. This improvement relief will run from 2024 to 2028 in the first instance. It is not clear why the new relief for improvements will not be introduced until 2024. The timing appears to incentivise a delay in undertaking improvements.

Transparency and disclosure of information on business rates valuations consultation

The consultation concerns proposals to provide increased transparency to ratepayers to allow them to request access, via a largely automated process, to an analysis of evidence used to set their rateable value. Currently specific information about the underlying evidence used to determine rateable value is only provided at the formal Challenge stage. A ratepayer would only be able to access more detailed rateable value information if they have complied with the new notification obligations.

The government has confirmed a six-month window will apply for Challenges on the 2026 rating list, and a three-month window thereafter. This six-month window is a fundamental change to the rating system and greater certainty is needed about how the process will work.

We are concerned that there is the risk of a major bottleneck in the system. It is likely that a large proportion of ratepayers will put in requests soon after each 1 April when a new rating list is published. It will be necessary for the VOA to respond in time to allow ratepayers and their agents to construct and submit a Challenge (within the new six-month window) by 30 September. The ability of the VOA to respond to these requests will depend in part on ratepayers' awareness of and compliance with the new information obligations set out in the Non Domestic Rating Bill. These may take some time to bed in.

The briefing on the Non- Domestic Rating Bill 2023 is at: www.tax.org.uk/ref1138.

The CIOT's response to the transparency and disclosure of information consultation at: www.tax.org.uk/ref1114.

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