Business rates reform: Autumn Budget 2024

Property Tax OMB Large Corporate

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The Labour government plans to reform the business rates system in England, including lowering rates for smaller businesses, tackling avoidance and increasing the frequency of revaluations.

Key Points

What is the issue?

In the Autumn Budget, the Labour government announced plans to permanently lower business rates for retail, hospitality, and leisure businesses with properties under £500,000 rateable value from April 2026, funded by a higher multiplier for properties over £500,000. Retail, hospitality and leisure relief was extended for 2025/26 but reduced to 40% with a £110,000 cap.

What does it mean for me?

The government plans to replace the current business rates system with a fairer one while generating the same revenue. Key proposals include tackling abuse of empty property relief, reducing the antecedent valuation date, increasing revaluation frequency to yearly, implementing a duty to notify for ratepayers, and digitalising the system by 2028 for better data sharing.

What can I take away?

While the government seeks stakeholder input for reforming the business rates system, the process is expected to take longer than one term, with initial changes like the duty to notify not fully mandated until 2029. Continued consultation is vital to ensure measures support growth across sectors.

There was much speculation ahead of the first Labour Budget in 14 years. Following manifesto promises on rates reform, the business rates community eagerly awaited announcements on the government's plans to replace the business rates system in England with a fairer and more accurate system that levels the playing field between high street retailers and online giants, whilst also supporting entrepreneurship and tackling the issues surrounding empty properties.

Business rates have long been a sticking point in Parliament. This is a long-established tax, with origins dating back over 400 years to the Poor Act of 1601, and with the current system now arising from the Local Government Finance Act 1988. It is understandable that finding an alternative system, yet which continues to allow the same amount of revenue to be collected, has been deemed a seemingly impossible task by the government and their opposition over recent years.

A conclusion we can draw from the Autumn Budget announcements, and the parallel release of the business rates discussion paper 'Transforming Business Rates' (see tinyurl.com/3drjbd9k), is that the wholesale replacement of the current business rates system seems to be some way off.

Labour's immediate plans are more of a sticking plaster, providing more time to determine what wider reform might look like. The discussion paper signposts that changes will be years down the line, but offers the comfort that stakeholders will be consulted on how best to change the system.

Many will be left pondering whether the intended tiered multiplier system widens the gap for bricks and mortar operators, rather than levelling the playing field. Also, if high multipliers are issued to businesses with a rateable value of over £500,000, will this discourage investment in such commercial property rather than encouraging it? We set out the impact of the changes announced at the Autumn Budget, as well as in the Transforming Business Rates discussion paper.

Key Budget changes

Rates payable

The main measure announced at the Budget on 30 October was a longer-term commitment to permanently lower business rates for those businesses in the retail, hospitality and leisure sector that have properties with a rateable value under £500,000 with effect from 1 April 2026. The intention is for this to be funded by a higher multiplier for properties with a rateable value in excess of £500,000.

The government has yet to clarify whether this will apply to all properties with a rateable value over £500,000 or just to certain asset sectors. It is assumed that this higher multiplier is aimed at capturing the large distribution warehouses occupied by online retailers that don’t necessarily have the burden of a high street presence.

However, if this includes retail, hospitality and leisure properties with a rateable value of over £500,000, it is likely to have a major adverse impact on those larger businesses that are anchor tenants in our town centres. Rather than easing the burden on the high streets, these sweeping changes could force many businesses to quite literally shut up shop, leaving a barren landscape where a thriving community hub should lie.

Retail, hospitality and leisure sector rate relief

To support the small high street retail, hospitality and leisure operators in the interim period, the Chancellor committed to extend the retail, hospitality and leisure sector rate relief for the 2025/26 rates year, although the discount amount will reduce from the current 75% to 40% and be subject to a £110,000 cap across all properties. The Chancellor also committed to freezing the small business rates multiplier at 49.9p while increasing the standard multiplier to 55.5p for the 2025/26 rates year.

While the extension of retail, hospitality and leisure sector relief is welcome news for many businesses in the sector, those occupying properties with rateable values in excess of £51,000 will still be unprotected from the burden that the uprated standard multiplier to 55.5p will bring from 1 April 2025. A fall in the percentage of the relief will also have a significant impact on businesses that may incur increased costs due to the rise in employer National Insurance contributions, and the increase to the national minimum wage, also announced at the Autumn Budget.

Further, for retailers with multiple properties, the £110,000 cap will bring little relief against a tax liability that is often one of the three biggest overheads for bricks and mortar businesses, alongside rent and staffing costs.

Bringing in additional multiplier thresholds and varying relief schemes will also create an extra web of complexity around revenue collection for already stretched billing authorities who, alongside ratepayers, will be expected to navigate a far more convoluted billing landscape.

Charitable rate relief for private schools

Finally, it was set out in the Budget that charitable rate relief for private schools operating as charitable trusts would be removed with effect from April 2025. Affected schools could see business rates liabilities climb five-fold as a result, putting further pressure on a sector that will also be dealing with the introduction of VAT on school fees from 2025. Private schools that are ‘wholly or mainly’ concerned with providing full-time education to pupils with an Education, Health and Care Plan will remain eligible for this relief.

Transforming business rates

Whilst the announcements in the main Budget speech aimed to provide immediate relief and changes to key sectors, the wider issue of business rates reform went unmentioned, leaving many businesses feeling disappointed following Labour’s campaign promises of big change. However, as ever, the devil is in the detail. Further information was published via the Transforming Business Rates discussion paper on the afternoon of 30 October, confirming the government’s intention to replace the current business rates system with a new, fairer system, whilst generating the same tax revenue. The government is seeking engagement from key stakeholders on future reforms by March 2025.

As with the previous government, questions around avoidance remain a priority, and therefore the discussion paper unsurprisingly documents the government's intention to introduce a general anti avoidance rule (GAAR) for business rates, following a consultation with key stakeholders.

Empty property rates relief system

The primary focus will be to tackle abuse of the empty property rates relief system, which has long been a point of contention between local authorities and ratepayers or their agents since its material introduction in 2008.

The initial purpose of the system was to discourage landlords from holding empty properties that they had no intention to let. In the current economic landscape, however – and particularly for retail properties – it is difficult to see how holding vacant property with the sole purpose of mitigating the empty rates liability would be beneficial to business owners or landlords alike. Indeed, rates mitigation is almost exclusively seen as a last resort for ratepayers, where all other avenues, such as letting/subletting premises, have been explored.

With the previous government having introduced a longer occupation period to qualify for the relief, the risk, particularly in the retail sector, is that further restrictions may lead to landlords divesting from sub-prime towns, and 'anchor' retailers withdrawing from these locations, which will further impact our already struggling high streets.

The rating list

Moving on to issues surrounding the accuracy of rateable values within the rating list, business rates are based on property values at a specific point in time, known as the antecedent valuation date.

The current position is that the antecedent valuation date is two years prior to the relevant revaluation date. Within this period, the Valuation Office Agency (VOA) collects and collates rental evidence to support its proposed amended values. This is predominantly done within a circa 18 month period, with a draft list being published around six months prior to publication of the compiled list. The paper sets out plans to potentially to reduce the antecedent valuation date to one year prior to the revaluation date.

Furthermore, the current rating system provides for revaluations every three years. This was implemented with effect from the 2023 revaluation, with the previous lists running for five years.

Within the revaluation period, the VOA aims to deal with all proposals submitted by ratepayers, with the duty of the valuation officer being to compile and maintain an accurate list. Unfortunately, as with many government departments, the VOA has recently faced funding difficulties, meaning resource is now scarce. This has led to many proposals remaining outstanding as we move into subsequent lists.

The discussion paper outlines plans to increase the frequency of revaluations from every three years to every year. Considering the 2010 rating list was extended to seven years due to the global recession, and the 2017 rating list was extended to six years due to the Covid pandemic, with appeals still carrying over into subsequent lists, additional capacity will certainly be required within the VOA to service these more regular revaluations, as well as to analyse evidence to compile an accurate list within shortened antecedent valuation date periods.

There is no mention of the government’s plans to address this in the discussion paper.

Duty to notify

An eagerly anticipated topic for discussion will be the new information duty, commonly referred to as duty to notify, as laid out in the Non-Domestic Rating Act 2023. The suggestion is that it will begin its roll out from 1 April 2026, with a view to formal implementation of the new system from 1 April 2029. There has been much speculation as to when the changes would be rolled out, but implementing gradual changes from the start of the 2026 rating list seems reasonable, providing time for requirements to be published with a clear line in the sand regarding obligations for ratepayers and their agents.

The information duty requires ratepayers to update information regarding their properties in real time, with the aim being to remove some of the burden from the valuation officer in terms of issuing and dealing with requests for information in the lead up to the antecedent valuation date, and during the Check, Challenge, Appeal process.

That being said, it remains to be seen whether consideration has been given to larger occupiers with multiple properties, or dynamic portfolios, for whom the burden may be deemed unmanageable within the mandated timescales.

Digitalisation

The government concluded its paper with the acknowledgement that the business rates system is not fit for purpose in the current digital age. There is a commitment to deliver the Digitalising Business Rates programme by March 2028. This will allow for the records of 296 billing authorities to be centrally accessed by the VOA, providing information beyond the current rental/rateable value property information, such as on ratepayer payment history and activity in relation to claiming reliefs.

The intention is that this information will ultimately allow for better informed decisions regarding business rates policy to support growth and encourage investment through targeted relief schemes. It is also intended that the access to this data will allow local authorities and HMRC to identify and tackle instances of tax avoidance.

In conclusion

It is welcome news that the current government will seek to consult our specialist opinion on how to improve the current system, and that they intend to work in partnership with business rates professionals and ratepayers to deliver change. However, from the announcements made in the Budget, and the timescales set out in the Transforming Business Rates discussion paper, it is clear that this process is likely to take longer than one Labour term to impose. Indeed, initial implementation of the information duty is still 18 months away, and the system is not set to be fully mandated until 2029. Furthermore, large-scale modernisation of the system through the Digitalising Business Rates programme is not on the horizon until 2028.

The paper made no allowances for discussion on the business rates multiplier being linked to CPI inflation. This is a volatile method which does not allow for the certainty that the rate payers require when preparing year on year cost budgets. With the crippling 55.5p multiplier that comes into effect from 1 April 2025, the outlook for many businesses may feel bleak, and it seems clear that real change can only come from a review of the ever increasing multiplier.

Although the discussion paper is a step in the right direction, it is evident that creating a fairer and less complex system for business rates in England will take some time, and further consultation with key stakeholders will be vital to ensure that additional measures support growth and resilience across all sectors.