



Stuart Adam, Institute for Fiscal Studies

20 June 2022

LSE Taxation Seminar

London

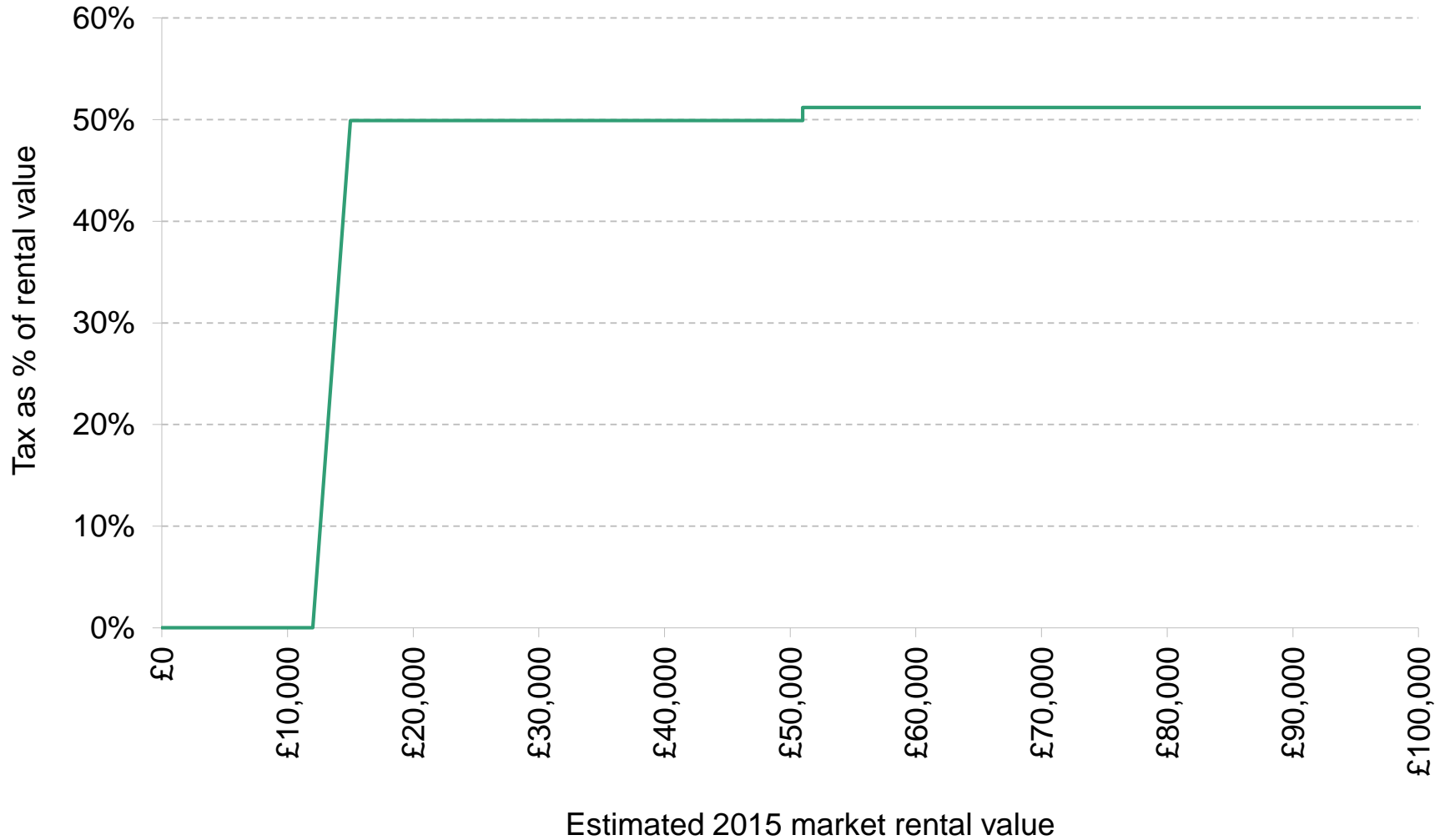
@TheIFS

Business rates: reform, reduce or replace?

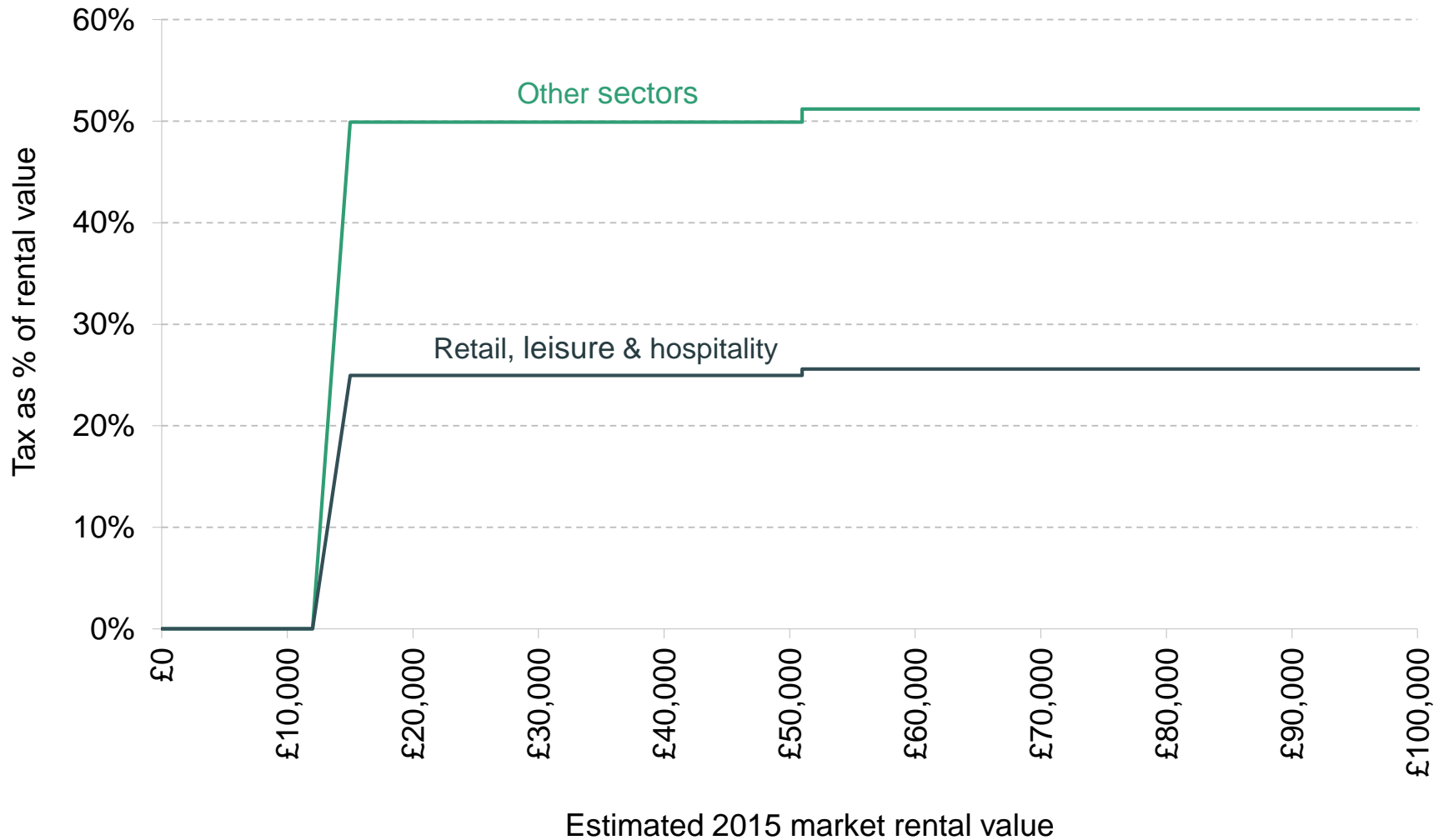


Economic
and Social
Research Council

Business rates in England, 2022-23

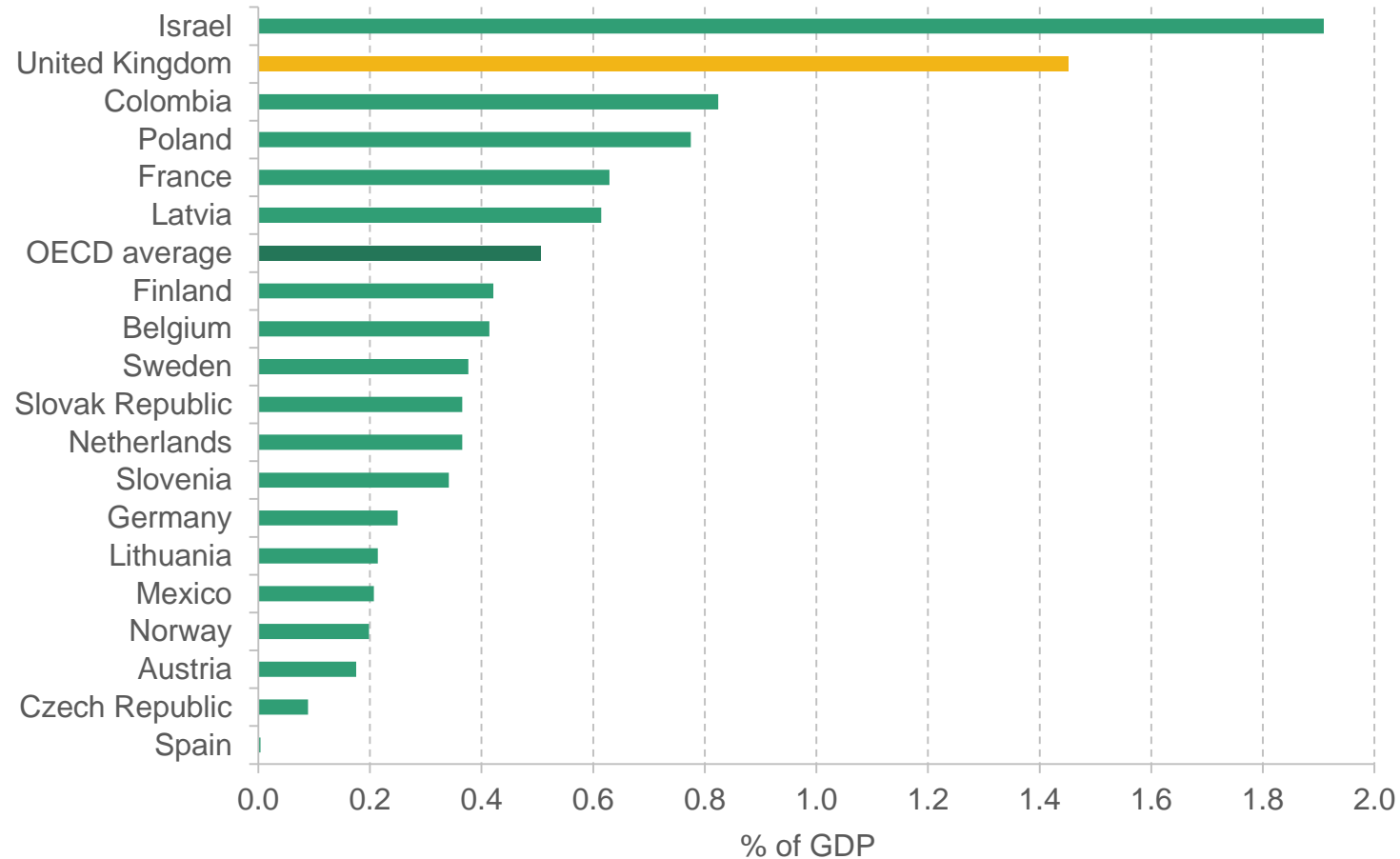


Business rates in England, 2022-23



An unusually big revenue-raiser...

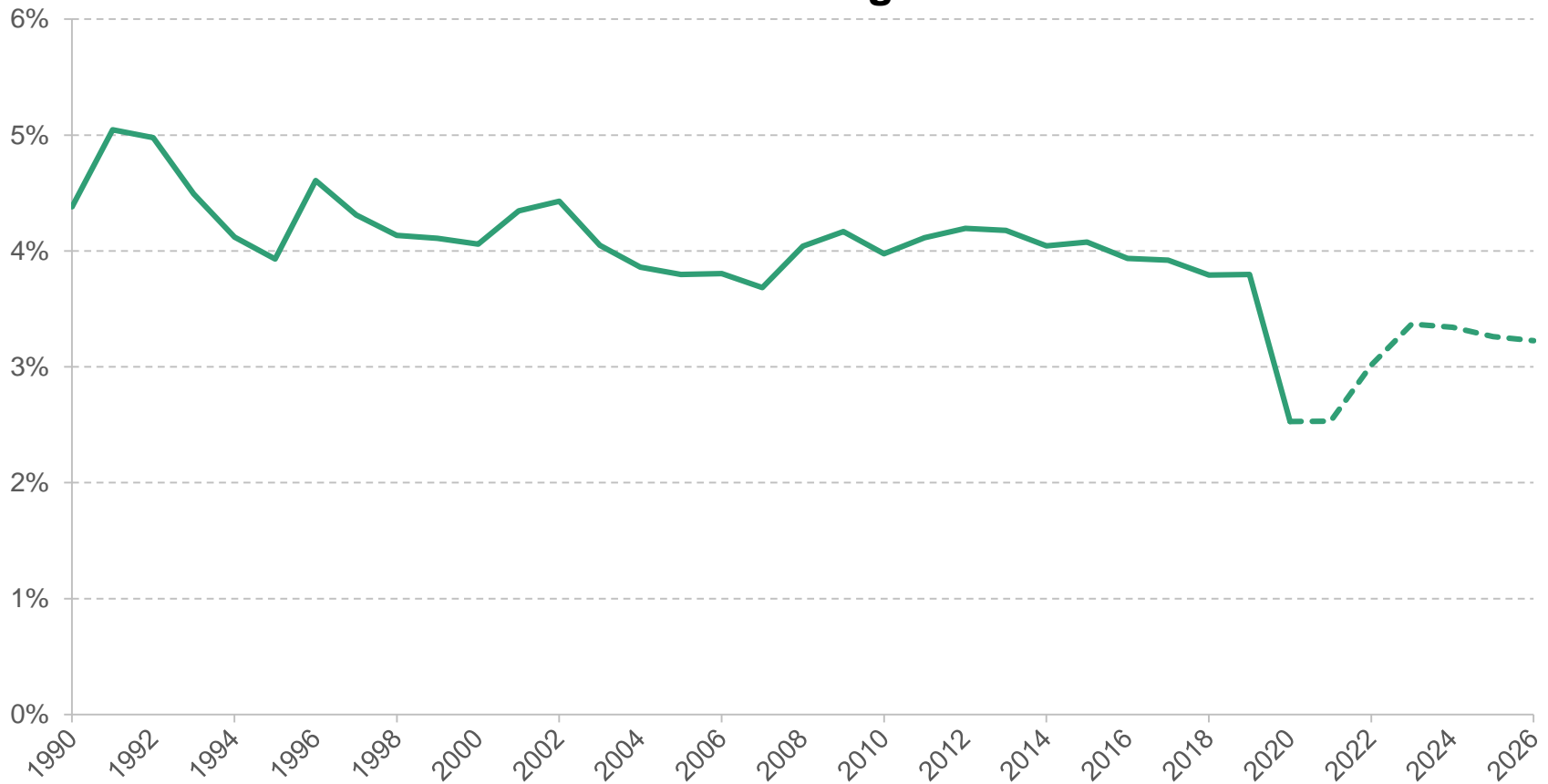
Recurrent taxes on non-domestic immovable property as % of GDP, 2019



Source: OECD Revenue Statistics, series 4120. Countries shown where data available; average is among those.

...but declining in importance

Business rates as % of total government revenue



Source: IFS Taxlab

Business rates: reform, reduce or replace?

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Recent developments

- Succession of ad hoc (temporary or permanent) reliefs over past decade
 - And repeated delays to revaluations
- Big reliefs during pandemic
- Fundamental review 2020–21
- Some sensible reforms
 - Move from RPI to CPI inflation for uprating
 - Move from 5-yearly to 3-yearly revaluations (supposedly)
 - 1-year grace period before property improvements increase bills
 - Complete exemption for certain green improvements
- Consultation on introducing online sales tax to pay for reduction

Big changes due in April 2023

- Revaluation: use (relative) values in April 2021 rather than April 2015
 - Currently consulting on transitional arrangements
- Average bills (before relief) rise with Sept 2022 CPI inflation (9%?)
- Temporary relief for retail, leisure & hospitality ends

Business rates are not killing the high street

- High-street retailers are struggling to cope with online competition
 - Higher cost of premises is a big part of that
 - Business rates much higher for retailers with a high-street presence
- But the contribution of business rates is less obvious than it may seem
 - Need to account for their effect on rents and property prices
- In the long run, business rates will be mostly reflected in rents
 - Rates reduce what potential tenants are willing to pay; with relatively fixed supply of property, landlords must adjust rents until find tenant
 - If business rates weren't there, correspondingly higher rents would mean premises were still almost as expensive

Available evidence supports theory



- Bond et al (1996):

‘much of the burden of business rates is shifted on to property owners in the long run. However, the short-run impact of changes to business rates affects tenants more than landlords’

- Cambridge Econometrics (2008):

‘The main conclusion is that 100% of the benefits from [business rates] relief are passed into rents and therefore accrue to landlords, although the range of uncertainty surrounding this statistical estimate puts the boundary at somewhere between 65% and 150%.’

Replace with a land value tax?

- Would be economically efficient
 - Remove disincentive to business property development
 - Leading to (slightly) more and cheaper property
- Would redistribute from owners of less developed land in prime locations to owners of highly developed properties in remote locations
- Key practical challenge: valuing land separately from buildings on it
 - Need careful study of possible methodologies and other countries' experiences
 - Efficiency gains don't depend on accuracy – but fairness and scale of appeals might

Improving business rates

- Further (arguable) improvements possible:
 - Go further in exempting improvements from tax
 - Even more frequent revaluations?
 - Update valuations using local property price indices in between revaluations
 - Increase bills in line with rents rather than inflation?
 - End reliefs for vacant land, agricultural property, and maybe low-value properties
 - Change formal liability from the occupier to the owner?
- But a return to greater stability would also be welcome
 - Business rates gone from among most stable taxes to among least

Conclusions

- Business rates are not killing the high street
 - Reducing them would mainly benefit property owners in the long run
- But they are flawed
- Replacing with a land value tax would be ideal
 - If can value land and buildings separately with enough accuracy
- Less radical reforms could still improve the tax
- But a return to stability would also be nice