



# **BUSINESS RATES REVIEW: CALL FOR EVIDENCE**

## **USDAW'S RESPONSE**

**SEPTEMBER 2020**

## INTRODUCTION

Usdaw, the Union of Shop, Distributive and Allied Workers, welcomes the opportunity to respond to the Government's Business Rates Review. Usdaw is the UK's fifth largest Union, with around 400,000 members across many sectors and industries from transport, warehousing, distribution and food manufacturing. However, the majority of our members work in retail which is why Usdaw has a unique insight into the issues and challenges facing the sector.

Usdaw has significant membership in many big name retailers such as Tesco, Sainsbury's, Morrisons, Co-op, Poundland, Primark and Argos. Usdaw has detailed knowledge of how business rates have punitively affected the sector and therefore fully supports fundamental reform, as outlined in our own industrial strategy for the retail sector published in June 2019 ([www.usdaw.org.uk/industrialstrategy](http://www.usdaw.org.uk/industrialstrategy)).

Business rates have long been a burden on the retail sector and have contributed massively to store closures and job losses, while at the same time stifling growth and investment. Historically there was a clear link between a retailer's profitability and their physical shop/s but this is no longer the case.

Retailers have been disproportionately impacted by the outdated system because the retail industry (in England) contributes approximately £7 billion of rates annually. This is nearly one quarter of the total business rates bill and far more than any other industry.

The Government had already introduced the much needed business rates holiday before the Coronavirus crisis struck, but this was only for smaller businesses and was therefore not enough to help the larger retailers who are responsible for at least 70% of the business rates bill for the sector.

The measures brought in by the Government in March and April to combat the effects of the Coronavirus crisis was a welcome respite to an industry on the brink of collapse, in particular the exemption from business rates for all retail and hospitality firms until the end of March 2021. But with the March 2021 date drawing ever-closer, more targeted action is needed to support bricks and mortar retailers on the British high street.

With so many jobs and such a crucial part of our economy at stake, we need urgent reform of business rates that includes:

- Improvements to the relief system with more targeted support that mitigates the impact of rates on business and minimises any anomalies.
- A reduction in the multiplier to a more manageable and fixed level.
- A revaluation exercise by 2022 at the latest and going forward more frequent revaluations to ensure the system is more responsive to market changes and trading conditions.
- The removal of downward transitional relief which is unfairly impacting many retailers who are overpaying on their 'true' rate liability.
- Improvements in the 'Check, Challenge, Appeal' (CCA) system, especially around increased transparency regarding the evidence/methodologies used to determine valuations.

- The introduction of an online sales tax to fund a reduction in business rate for retailers. This would help to create a significant and meaningful long-term income stream for Government, reduce the mounting pressure on the sector and go some way to addressing the imbalance between online and bricks and mortar retailers.
- Clarity on funding for local authorities – business rates are a crucial source of income for Local Government. The shortfall from any reduction in business rates must be centrally funded to minimise the impact on vital public services such as transport, education and health and social care.

### **Section 3.1 Reliefs**

The current reliefs do not provide the necessary support to many retailers who are struggling under the punitive impact of business rates. Many larger retailers are ineligible for relief yet are struggling with low profit margins, high rate bills and excessive rents. On the other hand a highly profitable business, with a lower rateable value could be eligible for relief.

Altus Group estimated that only 10% of all retail properties in England are over £51,000 in rateable value (after which the relief is not available) – but they account for 69% of the overall business rates burden for the retail sector.

While Usdaw supports smaller business relief on the whole, we are concerned that the system fails to recognise the distribution of the rates burden on larger retailers. The failure of the existing relief system is highlighted by the number of larger retailers who have collapsed into administration, in part, due to the weight of business rates. This includes big high street names such as Toys 'R' Us, Maplin, Poundworld, Debenhams and Homebase.

Up until now the Government has used different reliefs to tweak rates rather than actually address the key flaws in the system. We recognise that the reluctance to make fundamental changes is primarily due to the huge income stream provided by rates, particularly to local authorities. However, the constant tweaking of business rates through a complex system of reliefs has actually added another layer of complexity, while doing little to support those businesses that need it most.

While Usdaw supports the sentiment behind reliefs, the priority must be to establish a framework that on the whole is fair and balanced for all businesses. At this point relief can be used as it should be – to mitigate the negative impact of any changes and minimise any anomalies. Such as relief for improvements in property made by ratepayers that increase its rateable value, with the aim of encouraging investment and innovation. This is already in place in Scotland where the Business Growth Accelerator Relief offers relief for a 12 months period<sup>1</sup>. Usdaw supports the introduction of similar relief in England and Wales, but the amount of time such a relief should be in place would need to be considerably longer than 12 months if it is to allow retailers to recover the costs of any improvements and encourage/stimulate investment in the sector.

### **Section 3.2 The Business Rates Multiplier**

Usdaw is deeply concerned that the multiplier rate has risen by 50% since it was introduced. This means business rates have grown excessively compared to other taxes such as corporation tax. It has been reported that for every £1 retailers pay in corporation tax, they pay £2.30 in business rates<sup>2</sup>.

<sup>1</sup> <https://www.mygov.scot/non-domestic-rates-relief/business-growth-accelerator-relief/>

<sup>2</sup> <https://brc.org.uk/making-a-difference/priorities/business-rates/>

This is clearly not sustainable and has impacted bricks and mortar businesses such as retailers disproportionately, creating huge disparities between online and physical stores. The business rates multiplier has continued to increase over time, resulting in the UK having one of the highest property-based taxes in the OECD as a proportion of GDP<sup>3</sup>. The knock on impact of the multiplier is not just limited to the retail sector but can be felt right across the UK economy. Many retailers have cited business rates as a key driver in store closures and job losses. According to the British Retail Consortium an estimated 85,000 jobs were lost in the sector in 2019.

This needs addressing as a matter of urgency and Usdaw recommends a reduction in the multiplier to a more manageable and fixed level. We cannot continue to set the multiplier with the aim of simply generating a fixed sum in business rates income. Aside from being unfair on sectors such as retail, it is simply not sustainable when the very ratepayers who pick up a significant amount of the bill, are buckling under the pressure.

#### **Section 4.1 Valuations and Transitional Relief**

The Government have acknowledged that the business rates system needs to be more responsive and a key part of this is more frequent revaluations. Usdaw is disappointed that the planned revaluation of business rates due to take place in 2021 has now been postponed until April 2023. The delay in the revaluation exercise means when rates do return (after the business rate holiday ends) in April 2021, they will be based on property values from 2015 – predating Coronavirus and Brexit and remaining artificially high for yet another two years (until 2023).

We understand the exceptional challenges the UK is currently facing and the argument for focussing more on the business rate system in the first instance, but a two year delay in the revaluation is excessive. One of the Government's aims for this review of business rates was to create a more responsive system therefore more frequent revaluations are a key component. Such a wide delay between the review and the revaluation exercise will be catastrophic for many businesses. Usdaw would urge the Government to commit to a revaluation exercise by 2022 at the latest.

On the matter of transitional relief, we recognise this is helpful to Government in relieving the movements in rates that result from changes in valuations. While upward transitional relief protects ratepayers from immediate increases in their rates bill following a revaluation, downward transitional relief is unfairly hitting business, leaving them to overpay on their 'true' rate liability. Evidence from the Government's Response to the Consultation on the Transitional Arrangements for the 2017 Business Rates Revaluation, shows that financially retail is impacted more than other sectors by transitional relief<sup>4</sup>. The design of future transitional relief schemes must be much more fluid and reactive to changes in market values and take into account the unfair impact the system is having on the retail sector.

#### **Section 5.1 Valuation Transparency and Appeals**

Retailers have been vocal in the challenges they have experienced with the Valuation Office Agency (VOA), particularly in regards to the 'Check, Challenge, Appeal' (CCA) system. The new CCA, while an improvement in some ways on the previous system has been widely acknowledged as highly burdensome. For retailers the process of having to individually register every property (store) is incredibly time consuming and also needs to be addressed.

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<sup>3</sup> <https://publications.parliament.uk/pa/cm201919/cmselect/cmtreasy/222/22209.htm>

<sup>4</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/572823/Transitional\\_Relief\\_consultation\\_response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/572823/Transitional_Relief_consultation_response.pdf)

The problems with the system are reflected in the figures which show that the VOA still needs to resolve a large caseload of open appeals relating to the 2010 listing. The process of challenging valuations is highly difficult and lacks transparency.

In order to help businesses survive, especially in the current economic climate, the Government need to ensure they are able to progress their appeals faster and are being treated fairly. At present the burden placed on individual business to produce evidence as to why their valuation is wrong, without having any immediate oversight on how the valuation was reached, is problematic. Given where we are in terms of technology and data, the VOA clearly has the ability to offer more transparency to business and must share the evidence used to determine valuations.

On the whole, businesses need a more fluid and responsive system and this should include a reduction in the current statutory response times for the CCA process. Time limits for Checks and Challenges must be reduced to a more reasonable timeframe.

In light of this the VOA will require additional resources (ie an initial upfront investment) to adequately support the effectiveness of the CCA process as well as supporting technical improvements such as IT systems.

## **Section 6 Exploring Alternatives to Business Rates**

### **Capital Values Tax**

Usdaw acknowledges that a Capital Values Tax (CVT) could in theory produce enough income to replace business rates and reduce the burden on retailers by changing the tax liability from occupant to owner – this would ensure that the responsibility for the tax falls directly on the owner, rather than indirectly on businesses, as is the case with the current rates system which would be an initial improvement.

The economic argument for a CVT is very strong. Taxing land ownership does not have the same secondary impacts as other tax proposals; land is not a produced input; it is a fixed entity and cannot be affected by the introduction of a tax; meaning the incentive to buy, develop, or use land would not change (in theory). However, in the UK (and most other countries), the Government specify the use class designation for land eg residential, business, or agricultural. In general, land with planning permission for building houses would be much more valuable than adjacent land designated for agricultural land. A tax on land might reduce the incentive to apply for permission to the change the designation thus stifling development. However, this could be balanced by relaxing planning regulations.

Some stakeholders have expressed concern as to the availability of current capital values evidence to support valuations, as well as the challenge of defining who would be liable for a tax based on ownership, and ensuring compliance in cases where owners are located outside the UK.

While Usdaw acknowledges that replacing business rates with a land value tax and loosening planning laws could be one way to encourage investment and the use of commercial properties that are sitting vacant on our high streets, the concern would be that the cost would inevitably be passed on to occupiers/retailers in the long term. In the same way that excessive business rates have affected landlords (by severely limiting retailers' financial viability).

In light of the above concerns, Usdaw is not convinced that a CVT is the best way forward to address the flaws in the business rates system.

## Online Sales Tax

The case for introducing an online sales tax in some form or other is getting stronger as more UK retail sales continue to shift online. The Coronavirus pandemic has accelerated this shift with record numbers of people now shopping online. At the start of the pandemic, high street retailers, particularly those without online operations were severely impacted. Online only retailers have been able to utilise their already existing advantage in the current crisis. According to figures from the British Retail Consortium, lockdown is estimated to have cost traditional 'bricks and mortar' non-food retailers £1.8 billion a week in lost sales. While at the same time online shopping as proportion of all retail reached a record high of 30.7%<sup>5</sup>.

As stores began to open up, online retail sales volumes decreased slightly by 7% in July, compared with June 2020<sup>6</sup>. However, the strong growth experienced over the pandemic has meant that sales are still 50.4% higher than February's pre-pandemic levels<sup>7</sup>. Therefore, while the easing of lockdown measures has encouraged some shoppers back to the high street, the pandemic continues to pose huge challenges to the industry, with ongoing store closures and job losses across the UK.

According to new figures from the Centre for Retail Research (CRR), nearly 125,000 retail jobs have already been lost in the UK in the first eight months of this year and the job retention scheme has not even closed. These jobs are not just important to society and our communities but provide an important income for a huge number of workers.

It is clear that retail, particularly non-essential retailers, have been significantly impacted by the virus with around 1.6 million retail workers furloughed at the end of May 2020 – more than any other sector. As the job retention scheme comes to an end next month, the stark reality of the job losses within the retail sector will be felt right across the UK economy.

Usdaw urges the Government to take action to tackle the growing and excessive competitive imbalance between physical stores and online retail before it's too late. Several options have been debated in regards to an online tax; a vat increase to the sale of online goods, an online transaction tax and an online sales tax. While all three would broadly achieve the same objective, an online sales tax is seen as the more plausible option by many businesses and therefore the one being considered by Government.

We recognise there are concerns that consumers would face higher prices from an online tax. The priority for Usdaw is ensuing that the introduction of an online sales tax does not translate into higher costs for consumers, as this would disproportionately affect low paid workers. On this basis an online sales tax seems like the best option as it would be collected annually rather than at the point of purchase, therefore minimising the risk of costs being passed on to consumers.

Concerns have also been noted that an online sales tax could stifle investment, growth and innovation in online operations within the industry. Usdaw is confident many of the concerns raised can be overcome provided an online sales tax is designed in the right way. Usdaw believes if an online sales tax is to be introduced in a way that helps rather than hinders the sector, consideration should be given to the following:

- The tax should be set at a level that minimises the impact on growth and investment within the sector. The growing number of online sales in the UK would ensure that even a 1% or 2% tax on online, would create a significant and meaningful long-term income stream.

<sup>5</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/april2020>

<sup>6</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/july2020>

<sup>7</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/july2020>

- A clear definition of online sales that excludes orders placed online but collected from store (click and collect) and orders made in store but delivered at home. This would mitigate the impact on bricks and mortar retailers whose multi-channel retailing drives footfall on our high streets (ie click and collect).
- Any loopholes in regards to online market places (such as Amazon) are closed to ensure the levy is not simply passed on to smaller retailers. This is part of the wider problem that needs addressing in terms of tackling corporate tax avoidance – the UK tax structure needs fundamental reform with an overriding principle that no particular business or corporate structure should be able to deliver a competitive (or uncompetitive) tax advantage.
- The impact on smaller business; exemptions should be applied and this would need to be developed in conjunction with small businesses to ensure it is fair and mitigates any negative impact.

Usdaw recognises that the development of a new online sales tax will require rigorous economic and legal consideration. There are more detailed questions that need answering regarding whether the tax should apply to the sales of good for delivery, which goods it should apply to and how exactly it will be collected.

However, given the strength of the economic case for keeping business rates, the massive shift to online shopping, along with the huge profits being generated by online-only retailers, the introduction of online sales tax seems like a fair and balanced approach to fund a reduction in business rates. We are hopeful that this will go some way in addressing the challenges facing the high street and bricks and mortar retailers across the UK.

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