On 6 December the government published further information in respect of some of the proposals contained in the Autumn Statement. We comment as follows:

2014/15 rate increases capped at 2%
It now transpires that whilst the the inflationary element in rates bills is to be capped at 2% instead of the September RPI of 3.15%, the supplement that funds small business rate relief is to increase from 0.9p in the £1 to 1.1p in the £1, meaning most business rates bills will increase by 2.3% from 1 April 2014.

The Scottish Parliament confirmed that it too will adopt the 2% cap. We await the Welsh Assembly’s proposals.

Government to commit to clearing 95% of the appeal backlog by July 2015
This is good news! In last month’s edition of Rating Matters - our client newsletter - we commented that action was required. The government has now confirmed its intention to tackle this problem and has put the proposal out to consultation. Many businesses that made appeals when the rating list came into effect in April 2010 are still waiting for resolution. Where rateable values are proven to be excessive, a retrospective refund of overpaid rates will affect many businesses’ bottom line. We look forward to receiving more information following the consultation on how this proposal will work in practice and in particular with those appeals stuck in the Valuation Tribunal log jam.

£1,000 rates discount for retail and food & drink premises with a rateable value below £50,000
When the statement was announced originally this proposal appeared to be good news. However, as we suspected it is to be introduced at a council’s discretion. The proposal necessitates councils to adhere to EC State Aid rules that place on them a hefty administrative burden with financial sanctions for any breach. In this regard we suspect that councils will not introduce this scheme. To date we are not aware of any council actually implementing other discretionary business rates schemes that were introduced following earlier Autumn Statements.

In order to enable a council introduce this proposal then there remains a lot of detail to be confirmed. Will the discount apply to both occupied and empty shops? How exactly will councils determine what qualifies as retail or food and drink premises? How many properties will actually benefit from the relief if a business has two or more properties and what was the government’s rationale in setting the threshold at rateable value £50,000?

Reoccupation relief on long term vacant shop units
It is proposed that a 50% discount will be applied to rates bills for up to 18 months for businesses that move into retail premises between 1 April 2014 and 31 March 2016 that have been empty for a year or more. This is also a discretionary measure and therefore councils are likely to be dissuaded from implementing the scheme as the EC State Aid rules apply.

Small Business Rate Relief to continue in 2014/15
Currently, small business rates relief is subject to strict criteria and complex formulas. A business that has a single property or more than one property with a rateable value or combined rateable values below £18,000 (£25,500 in Greater London) may qualify. In view of the low thresholds relatively few businesses actually benefit from the current scheme. The proposed change confirms that businesses receiving the relief who acquire an additional property, which would currently disqualify them from receiving the relief, will continue to receive their existing relief for 12 months.

‘Small’ business is defined by the size of the rateable value (or values), as opposed to other conventional measures such as turnover. The relief applies to occupied properties only. For the small number of businesses that are in receipt of or will now continue to qualify for the relief, it is clearly welcome news.
Discussion paper to be published about long the term reform of the business rates system
The government will publish a discussion paper in Spring 2014 setting out the advantages and disadvantages of the options for longer-term reforms to business rates administration whilst maintaining the aggregate tax yield.

We look forward to receiving further information on this proposal. Business rates revenue is ring fenced from national taxation as it is a property tax that is revenue neutral (subject to inflationary adjustment) and specifically funds local authority services. The intention of any revaluation is not to raise additional revenue, but instead maintain the total tax take across the UK whilst redistributing the burden of the tax to those locations that have seen increases or falls in rental values since the last revaluation. The current system came into effect in April 1990 and in view of economic evolution a review of the system is needed, provided that businesses and local authorities' interests are balanced.

Overview
It is highly unusual for business rates to receive such coverage in a Chancellor's budget speech. The most significant pledge is to cap the inflationary element in rates bills, meaning that most businesses’ bills will increase by 2.3%. It was anticipated next year’s increase would be approximately 3%.

We are delighted that the proposal to clear the appeal backlog looks set to come into fruition, as the current system where businesses are forced to wait years for resolution is totally unacceptable. With regard to the proposals directed at the retail sector it is disappointing these have turned out to be discretionary measures that in all likelihood won’t be implemented.

On balance this budget is a step, albeit a very small step, in the right direction.

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About BNP Paribas Real Estate
BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 40 countries with more than 180 offices and 3,300 employees (18 wholly owned and 22 by its Alliance network that represents today more than 3,000 people). BNP Paribas Real Estate is a subsidiary of BNP Paribas.
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