

Business rates: delivering more frequent revaluations

Comments from ACCA to HM Government
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The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; pensions; education; and corporate governance and corporate social responsibility. www.accaglobal.com

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COMMENTS

ACCA would urge the Government to reconsider whether delivering more frequent revaluations would be of benefit to the government and taxpayers. In providing our response, we have not answered each discussion point in the consultation document in order, but instead set out an alternative proposal below.

More frequent revaluations

We understand that the consultation reflects real concerns from businesses that revaluations under the current system are not carried out frequently enough to reflect market conditions. However, ACCA would question whether implementing more frequent revaluations across the board is an appropriate response, particularly given the shortage of chartered surveyors both within the VOA and in the UK in general.

In our opinion, moving to a mandatory self-assessment system, as set out in section 3 of the consultation document, gives rise to three key disadvantages:

- The loss of public rating lists – making it more difficult for rateable values to be reliably benchmarked;
- Undue burden on small and medium businesses – the compliance burden under self-assessment is disproportionate to the amount of business rates payable, especially for businesses subject to small business rate relief or exemption; and
- Budget uncertainty for local authorities – late or incorrect assessments, coupled with the increased volatility of a shorter revaluation cycle, will have a negative impact on local authorities' ability to plan for future cash flow.

Moving to a formula-based system, as set out in section 4 of the consultation document, will dissociate business rates with market conditions. As such, it will not meet the stated objective behind delivering more frequent revaluations.

Rather than implementing more frequent revaluations for all business premises, we would recommend retaining the current system of 5-yearly revaluations carried out by the VOA, along with the two-year advance notice period before new revaluations come into effect. As a safeguard, a growth trigger for earlier revaluation could be considered as part of any formula. This would provide a safety net for both businesses and local authorities and account for increased or reduced growth. We believe that this delivers

the best balance of certainty, stability and simplicity for businesses and local authorities alike.

An option can be granted to businesses to submit self-assessed rateable values should they believe that the VOA revaluations no longer reflect market conditions. Such revaluations could be subject to challenge by the VOA within a set timeframe. To ensure that the VOA are able to review the self-assessed valuations, such a self-assessment option may be restricted to only the largest businesses, and limited to one revaluation over a specified period (for example, once every two years).

Simplifying the process

ACCA have received consistent feedback from members in business that the main area in which improvement is needed to the current business rates system is the appeals process. In particular, small and medium businesses spend significant amounts of time and expense in appealing against revaluations, even where the small business exemption reduces the business rates payable to nil. Simplifying and streamlining the appeals process for small businesses will benefit the businesses, the VOA as well as local authorities.

Businesses subject to the small business exemption appeal against revaluations because they are concerned that the small business exemption may be removed or thresholds redefined in future, causing business rates to crystallise based on the higher revaluations. This concern could be addressed by legislation clarifying that businesses subject to business rates exemptions will have the right to appeal against existing revaluations as and when any exemption no longer applies.

We would also encourage the Government to consider improving certainty around small business exemption and small business relief, by moving away from thresholds based on rateable values. Defining small businesses using independent criteria such as the number of permanent employees will allow business owners to determine their access to exemption or relief beyond doubt. Increased certainty in this area should further reduce the number of appeals.

Devolution

Local governments will retain 100% of their business rates from 2020, against a significant reduction in funding from central government. Protecting the stability of business rates income will therefore be paramount. ACCA believes that the existing 5-year revaluation period, with the Antecedent Valuation Date set at two years before the revaluation comes into effect, is the best way to provide stability.

We would strongly advise against reducing the current two-year advance notice cycle. The volatility that this would introduce will exacerbate the already precarious state of local authority funding, leading to serious negative impacts on local services. Reducing the two-year advance cycle would also impact businesses, introducing a degree of uncertainty to planning and cash-flow requirements.

We understand that the business rates multiplier is expected to continue to be determined at central government level. Given the devolution, we believe that local governments should be able to influence the multiplier. Allowing local governments a say in identifying specific zones for the regeneration or enhancement of enterprise (for example, by requesting a lower multiplier for specific regeneration zones) will allow business rates to be better aligned with local government priorities and the economic needs of each region.