Jesse Norman MP
Financial Secretary
HM Treasury

Via email: Action.FST@HMTreasury.gov.uk

25 January 2021

Dear Jesse

On behalf of the business and union representatives on the Retail Sector Council, I would like to express my appreciation for your attendance and contribution at our meeting on 3 December. You were generous with your time and we appreciated the open and frank discussion relating to the ongoing review of Business Rates being conducted by HM Treasury.

During the discussion you raised a couple of questions which deserved a fuller answer than time allowed in the meeting – relating to our recommendation that the multiplier for retailers be reduced to 20p in the £ and our position on an Online Sales Tax. The detail behind our original submission of course still stands but is not repeated here.

Multiplier for retailers

In our submission to the Call for Evidence, we pointed out a number of features of the current Business Rates system as it applies to retailers that are unfair and/or unsustainable:

- The fact that the retail sector accounts for c.5% of GDP but incurs c.25% of total business rates.
- The fact that the burden of business rates falls on the "bricks and mortar" element of retail rather than other (often competing) channels.
- The collapse in retail profitability and (more recently) retail property values which over time will lead to the inexorable reduction in the yield to Government of Business Rates paid by retailers.

Our recommendation for an early reduction in the business rates multiplier for retailers is designed to reduce the ongoing damage to our built infrastructure caused by this unsustainable tax burden. As you know, the real consequences of a failing bricks and mortar retail sector are reduced employment and the degradation of the fabric of our communities.

The reduction in the multiplier to 20p would result in the revenue from retail business rates equating to the average across all business sectors, and hence can be justified on the grounds of fairness. As you know, retail property values have fallen sharply and are likely to continue to do so – so over a period of years the business rates yield from the retail sector will naturally adjust downwards anyway. Our argument however is that if you wait for the valuation system to resolve this there will be much irremediable damage to the retail sector in the meantime. You will have seen evidence from retailers of stores where the rates bill is greater than the annual rent, and where retailers have closed stores because of the unsustainable rates burden. Empty properties are becoming “un-investable” due to the rates burden.

We do not advocate the elimination of business rates as a tax – we recognise that a place-based tax can still form part of the overall tax yield to Government. We do however point out that the current operation of the tax is viewed by business as opaque, capricious and highly inefficient. Fundamental reform is required – but we do not have the luxury of time in avoiding further significant damage to the bricks and mortar retail sector. Hence our argument for an urgent reset of the disproportionate rates burden borne by shops.

Online Sales Tax

As pointed out in our submission, retail Business Rates was for many decades a tax paid by the consumer (as part of the cost of doing business that retailers have to pass on to customers if they are to be successful). With the rise of the digital channel in competition to bricks and mortar retail, this ability to pass on business rates (and other costs of doing business such as the above-inflation rises in minimum wage) was curtailed leading to a collapse in the profitability of the retail sector and the consequent failure of many household names. This “channel shift” did not simply result in the transfer of profits from one channel to another, as for a variety of reasons profit margins in the digital channel have been structurally lower than was traditionally the case in high street retail.

Retailers have long argued that the “playing field” between bricks and mortar and the digital channel was not level, and that it should be. It would now be perverse for retailers to argue in favour of an Online Sales Tax which would tilt the playing field the other way. Instead, we have argued that the shortfall in Government yield resulting from the reduction of the business rates multiplier should be bridged through other, existing, tax structures. We believe either VAT or Corporation Tax could do this. Either of these would be faced equally by retailers selling through whatever channel.

An additional argument against a specific online tax is that the retail “customer journey” has become interconnected across physical and digital channels. Many purchases will involve the consumer researching products on-line, seeing them and trying them in-store and then transacting either on-line for home delivery, on-line for click and collect or at the checkout of the store. Levying a specific tax on one particular leg of this customer journey would not, in our view, reflect the holistic nature of 21st century retailing. Additionally, through Covid, on-line retailing has become a lifeline for elderly and vulnerable groups. If an Online Sales Tax were to be contemplated, careful modelling and research would be required to understand its potential regressive effects.

The UK has one of the most complex tax regimes in the world (tens of thousands of pages of legislation) and we would respectfully suggest we do not need another tax. Retailers likewise do not need the administrative burden of another new tax when the Government has a stated priority to reduce red tape.

The VAT system has the advantage that it is ultimately a tax borne by the consumer (as historically was business rates), is well established and efficiently administered by business. It already has the flexibility to distinguish between types of products (zero rated for items most essential to all consumers such as basic foodstuffs) and between channels (for example the same food item may be zero rated in a supermarket selling for home consumption on a school night or standard rated in a restaurant serving guests celebrating a special occasion). That flexibility could be applied by Treasury , were you minded to pursue a review of the operation of the VAT system.

The retail sector has much expertise amongst our member companies that we would be very happy to contribute to any such review. Similarly were you minded to look at Corporation Tax as the source of the revenue foregone from the lower business rates multiplier, we would be pleased to contribute to this discussion. We would welcome engagement in a refreshing of the entire tax system to make it fit for the 21st Century, built around the existing systems of taxing sales and profits rather than the layering-on of more taxes.

Yours sincerely

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