30 October 2020

Reply to: richard@pennycooks.net

For the attention of Her Majesty's Treasury

Dear Sirs

On behalf of the business and union representatives on the Retail Sector Council (RSC), I am pleased to set out a further contribution to your review of the Business Rating system. We believe wholesale reform is long overdue; with regards to the fundamental principles of any tax system – fairness, certainty, convenience and efficiency – business rates as applied to retailers fails on most counts.

You will be aware that the RSC has been actively engaged in the debate on Business Rates, having initiated a meeting with The Right Honourable Jesse Norman MP in 2019 and written to the Chancellor of the Exchequer earlier this year.

We have included as an Annex an updated extract from the Costs to Business report pertaining to rates, which was discussed by the RSC earlier this year and has now been tailored to respond to the Government's call for evidence.

This submission covers two topics of fundamental importance to retailers - the resumption of business rates payments in April 2021 following their suspension for a year in response to the Covid crisis and a suggestion for how to level the playing field across the retail sector and between retailers and other business sectors.

Preamble

As set out in Jesse Norman's introduction to the call for evidence, the business rating system has been, over many years, an attractive source of significant revenue to Government. It has been easy to collect, with very little leakage, and perceived as a "business tax" rather than a consumer tax. In relation to retail this has in fact been erroneous, as explained in our submission.

With limited fiscal manoeuvrability, it is unsurprising that successive Governments have sought to increase the yield from business rates, with the multiplier having risen from 41.4 pence in the pound in 2010 to 50.4 pence most recently. Across a similar period, however, the profitability of the Country's largest retailers fell 68%, with net margins reducing from 4% to 2.5% as the tax burden grew 55%*.

The retail sector is by far the most significant contributor to the Government's business rates receipts. Whilst retail accounts for c.5% of the total economy, retailers pay 10% of all business taxes and 25% of the total business rates bill, equating to approximately £8bn per annum.

** Source: RSC cost to business report, extract attached at Annex.*
*** British Retail Consortium Retail 2020 report*

- *Were retailers to bear a proportion of the business rates burden equivalent to their overall contribution to the economy (ie 5%), the Retail rates bill would be £1.6bn – some £6.4bn lower than was the case in 2019.*

- *Were retailers to bear a proportion of the total business rates bill equivalent to their share of total business tax receipts (ie 10%), the Retail rates bill would be £3.2bn – some £4.8bn lower than was the case in 2019.*

We argue that to protect the viability of our physical retail estate, the retail rates burden should be permanently reduced by this sort of amount. This could be achieved by changing the business rates multiplier for retail premises to c.20p in the £.

Retail has been a golden goose for the Government – but it will not continue laying and unless the burden of business rates is distributed differently through the economy the long-term impact on people and place of retailers retreating from our high streets and shopping malls will be significant. Total tax revenues from the retail sector, including income tax, national insurance and corporation tax could fall substantially in the coming years.

In the Costs to Business report (Annex 1) we made a number of recommendations for improving the operation of the business rating system – through the eyes of business, it is seen as opaque, capricious and painfully slow to react to changes in market conditions. However, in addition to fundamentally improving the operation of the business rates system, our contention is that Government needs to reduce its dependence on this source of revenue. Put simply, a tax system designed to extract yield from the commercial operation of retail premises is ill-suited to the emergence of a rapidly accelerating digital economy. It is for this reason that our submission focuses on the questions posed in the call for evidence around alternatives to the business rates system.

We argue that the business rates multiplier should be significantly reduced for retail premises, to bring the rates burden for retailers more in line with their overall economic contribution and to improve the economics of bricks and mortar retail. We do not believe that the rates relief provided to retailers as a consequence should result in business rates rises for other sectors – that would literally be a "beggar thy neighbour" approach. Instead, the yield lost to Government should be recouped through the VAT system and borne in an even-handed way by the end-consumer, or alternatively through Corporation Tax. As we point out below, it is the consumer who currently bears the burden of retail business rates.

In this response, we also address the "cliff-edge" that currently exists on 31 March 2021 when the welcome rates relief given to retailers (as well as hospitality and leisure businesses) is due to end. We make recommendations for how all stakeholders might contribute to aiding the viability of retailers who continue to suffer the effects of the pandemic.

** Source: RSC cost to business report, extract attached at Annex.*
*** British Retail Consortium Retail 2020 report*

Recommendations for dealing with the aftermath of the business rates Covid relief in April 2021

In his emergency budget in April 2020, the Chancellor enacted measures to mitigate the worst economic effects of the Lockdown necessitated by the Covid pandemic. At the time, very little was known about its likely course and where the impacts would be felt. The Chancellor's actions saved many businesses, and many jobs.

One of the measures taken was to provide 100% relief of business rates for the 2020/21 fiscal year for all retail, hospitality and leisure businesses. For some, this was a lifeline; for a small number, it was a windfall.

Given the continuing national and local restrictions on normal life, many retail businesses continue to be existentially challenged by the Covid pandemic. City centres and transport hubs are operating at a fraction of their normal capacity, social distancing in shops is off-putting to customers, the vulnerable are avoiding going out, many of the normal "experiential" aspects of retailing (like trying on clothes or sampling items) are prohibited. It is unlikely that these restrictions will magically ease next Spring, but even if they do many businesses will be so weakened by the effects of 2020 that the resumption of retail business rates will likely lead to a wave of failures or significant restructurings. Unlike in past recessions, where retail job losses were quickly recycled, this time we believe a significant proportion of jobs lost will lead to structural, rather than cyclical, unemployment.

The Chancellor has made clear that the Government cannot save every business, and nor should it. However, where there is a collective effort to save a business, with contributions from other stakeholders, we believe that Government can play a continuing part for the benefit of society, the economy and long-term tax revenues.

Our recommendation, to be effective from 1 April 2021 up to the point where permanent rates reform is enacted, is that Government should continue to offer rates relief to retailers who need it. To qualify, the following conditions would apply:

- Ongoing 100% relief for small retailers with a total rateable value below £25,000.

- Relief for retailers who have contributed new equity to the business in order to keep it open, or who have received rental support from landlords in order to keep stores open. Such rates relief to be £ for £ with the contributions received from shareholders or landlords. By way of example, where a landlord waives (permanently) a rent liability on the retailer, Government would waive business rates at the same level. Where a retail owner contributes new ordinary equity to the business to secure its future, Government would waive business rates in the same amount.

** Source: RSC cost to business report, extract attached at Annex.*
*** British Retail Consortium Retail 2020 report*

- For larger companies (retailers with a turnover above £50m) ongoing rates relief for any business which is unable to pay dividends, interest on shareholder loans or management bonuses up to the point where any of these are reinstated.

- All premises attracting relief would need to stay open throughout the period for which relief is given, unless closed by Government lockdown action.

- To mitigate fraud risk, certification would be required from independent auditors as part of the process of claiming the relief.

Reform of retail business rates

We lay out our arguments for the permanent reform of retail business rates in the attached Annex, and stand ready to engage you on the further detail of these recommendations. We welcome Minister Norman's attendance at our next scheduled meeting.

I should point out that a number of RSC members represent organisations which will also be submitting their own responses to the call for evidence. Our response here does not purport to represent the individual positions of these organisations, which will make their own case as it applies to their specific circumstances.

Yours faithfully

R J Pennycook
Co-Chair, Retail Sector Council

** Source: RSC cost to business report, extract attached at Annex.*
*** British Retail Consortium Retail 2020 report*