Business Rates call for evidence - tailored response from the Retail Sector Council *

October 2020

**** This submission is from the business and union members of the Council rather than the full council which includes Ministerial and Official representation.***

Executive summary

This is a response to the second tranche of the Treasury's Call for Evidence for their review of business rates. It has been written incorporating research previously undertaken by the Retail Sector Council, (RSC) specifically a report on the costs facing retailers presented to the whole Council earlier this year, and it is submitted on behalf of business members of the RSC.

Business rates have risen up the agenda for retailers over recent years. They disproportionately affect an industry that accounts for 5% of the UK economy by GVA, but pays fully 25% of the Government's business rates receipts.

Despite revaluations, the general direction of the multiplier in England has been upwards, so that it is currently at its highest ever level, over 51p in the pound. In the last decade alone it has risen 20%. This rate of increase is simply unsustainable and has accelerated the channel shift by retailers away from physical stores towards the digital channel. Price differentials between in-store and on-line are in part facilitated by different tax burdens. These differentials have further encouraged consumers to switch channels, leading to a vicious spiral downwards for the High Street, with severe consequences for the economy, society in general and the Government's tax raise. The switch undermines retailers' ability to invest in their staff and stores, and directly contributes to store closures and job losses across many parts of England, particularly in those locations where downwards phasing of transitional relief makes the business rate liability even more out of alignment with market rents than would otherwise be the case.

This response does not directly address every question asked in Tranche 2. Rather, it makes a specific and limited set of recommendations. Where relevant, the response states which question in the Call for Evidence the section relates to. This document addresses the long-term resolution of the systemic problems which have emerged with a property-based tax. If we are to enable more retailers to survive in the short-term, Government will also need to address the "cliff-edge" on 1 April 2021 when rates relief for the retail sector is due to end. This is addressed in a covering letter from the Co-Chair of the RSC.

__The key recommendations of this response are:__

- **The multiplier for retail premises should be brought down to 20p in the £ in order to encourage continued investment in bricks and mortar retailing. The revenue lost to Government from this change should be recouped fully through either VAT or Corporation Tax. (Call for Evidence Question 6)**

- **Government should abolish the requirement of raising a fixed sum from business rates each year and replace it with a fixed rate for the multiplier (20p in the £ for retail premises) with the overarching goal of protecting jobs, consumer choice and long-term tax yields whilst reducing the currently market-distorting rates burden (Call for Evidence Question 7)**

- **Using the flexibility above, downwards phasing of transitional relief must also be abolished. Businesses that have been revalued and have lower valuations should pay those new, lower valuations immediately, not move towards them over the course of a valuation list period (Call for Evidence Question 16)**

- **Valuations themselves should be based on real-time evidence and the maintenance of a transparent national property costs database. The year on year shift in Government revenues resulting from this should be funded through general taxation in the normal way Failure to do so means that already struggling retailers are being "over-taxed" in the short term and at a time when they are already struggling. This will result in more store closures, more job losses and a greater net impact to the economy and society over the medium and long term. Data currently held by the HMRC and the Land Registry on commercial property transactions should made available to the Valuation Office, and Government should reduce the ability to redact very large portions of commercial leases when they are registered with the Land Registry. The prescribed clauses at the start of registrable leases should be required to state the "all-in", true economic rent payable during the period through to any arms-length open-market rent review (Call for Evidence Question 26)**

- **The reduction of the business rate multiplier should be offset neither by alternative property taxes nor by taxes on online sales – neither of which we support - but rather through increases in established taxes such as Corporation Tax or VAT (Call for Evidence Questions 33-43)**

Introduction

1. The retail sector is in the midst of a huge transformation, with the result that the High Street is dying. Even before the advent of the Covid-19 pandemic, more people than ever before were shopping online; 87% of adults use the internet daily, and 82% of these shopped online at last once in the twelve months to October 2019, compared to 53% of internet users in 2008.[1] Online shopping has risen from 1% of retail sales in 2000 to over 18% in 2019 and – boosted hugely by Covid lockdown restrictions - in September 2020 constituted 40% of all retail sales.[2]

2. Online grocery sales, plateauing at around 7% of all grocery sales for some years, have seen a particularly rapid increase – virtually doubling in the six months to September 2020 to 15% of all grocery sales.

3. Retail has responded rapidly and successfully to the challenges of the closure of non-essential retail stores, and their reopening. The industry lost £1.6bn in sales a week during lockdown, but retailers have invested hundreds of millions on pounds in making shopping Covid-secure and the industry has reopened safely for customers and staff.

4. The Government also responded in a timely and welcome manner to the challenges of the pandemic. The early announcement of the business rates holiday for 2020/21 was a vital lifeline for many businesses and, when combined with other policies like the Retail, Hospitality and Leisure Grant, temporary moratoria on landlord debt enforcement, the Coronavirus Job Retention Scheme and the various loan facilities available, it was clear that a sizeable and generous package of support was available to retailers and others to continue trading - or at least surviving - through the spring and summer of this year. This support was necessary, but unless there is further support in the coming months and into the 2021/22 financial year, it will not be sufficient to enable many otherwise viable retailers to continue trading over the next 18 months, with a consequent increase in long-term structural unemployment.

5. Before the pandemic began the transformation referred to above was resulting in an oversupply of retail space and a reconsideration of the role and nature of high streets and town centres. This has been greatly accelerated but not changed directionally by the events of the last six months.

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[1] https://www.ons.gov.uk/businessindustryandtrade/retailindustry/articles/howourinternetactivityhasinfluencedthewayweshop/october2019

[2] BRC Retail Sales Monitor, September 2020

6. High streets and town centres across much of the country were facing enormous challenges before Covid-19, and these are even more stark now. The demand for retail space has fallen dramatically, with some estimates putting the oversupply of retail units as high as 20% pre Covid. This is expected to increase substantially over the coming months, particularly if there is little or no business rates relief in 2021/22. These empty stores will directly affect the vibrancy, viability and sustainability of the high streets in which they are located. Furthermore, as many stores close, the collective attractiveness of those that remain will weaken, leading to a vicious spiral where even successful stores may ultimately fail.

7. These store closures will contribute to an expected loss of 250,000 retail jobs this year. This matters because retail jobs offer particular advantages compared to other sectors of the economy. Retail has been a haven for people wanting to work locally – it is the biggest employer of people who walk to work. Retail also employs a disproportionately higher percentage of women than their share of the workforce would suggest (60% compared to 48%[3]), aiding social mobility. By their nature, many jobs in retail also offer flexibility in hours, which are valued by those with caring responsibilities (either looking after children or other adult members of the family) who are disproportionately women. It is almost certain that significant job losses in retail will be structural in nature, rather than cyclical. With an uncertain economic outlook, these unemployed are unlikely to find new employment in the short and medium term, meaning a double impact on Government finances: a greater strain on the welfare system with the aforementioned lower tax raise. Failure to help protect these job losses, which are in part due to the inequality of the tax burden, is likely to be a false economy. But there are also societal and demographic impact s as well.

8. Retail also has a relatively young workforce. 24% of the workforce in a British Retail Consortium survey in 2018 was aged 24 and under, compared to 12% of employees in the UK as a whole.[4] Through providing a variety of entry-level roles, retailers enable many young people with a range of qualifications to access the labour market and get vital work-experience. Retailers' apprenticeship schemes and employer-funded workforce training offer huge opportunities for career progression, further boosting labour market flexibility, skilling up the UK workforce, and improving the country's productivity.

9. That cost is substantial, and disproportionate in many ways for the retail sector. Retail accounts for 5% of the UK economy, yet pays 10% of all business taxes and 25% of total business rates (estimated

[3] ONS workforce data
[4] BRC Workforce survey 2017/18, August 2018

to be roughly £31bn in 2018/19[5]); more than any other sector. For the largest retailers, business rates alone account for almost 50% of their total tax bill.[6] For one major national supermarket, business rates account for 57% of their total tax bill.[7]

10. Retailers are responding to the headwinds created by these challenges by bearing down on costs, investing in new technologies and responding to evolving consumer demands but also by retrenching, by closing stores and by cutting employment. Government must play its part in stemming this uneconomic decline, for which the antiquated business rating system is playing a part. The benefits of government action will be mutually felt; permitting a customer-led transformation while avoiding unnecessary distortions to commercial decisions that could have far-reaching implications for UK communities.

[5] Budget 2018 'Red Book', HMT
[6] BRC analysis of 'Total Tax Contribution of the 100 Group', PwC, 2018
[7] Information supplied to the Retail Sector Council in confidence by the retailer

Business rates – the fundamentals

11. As pointed out in the call for evidence, property related taxes have formed an important tier of Government receipts for centuries. Given the extent of the property base in the UK, it would be unrealistic and unnecessary, in our view, to fully replace business rates with alternative sources of revenue. Instead, the fact that property-based business tax has become a disproportionate amount of the total business tax universe should be addressed. We argue that the business rates burden on retail should reduce by 60% (c. £4.8bn) by eliminating the historical valuation premium that has attached to consumer facing businesses, with alternative sources of revenue taking its place. A rates reduction at this level would bring the burden of business rates bourne by retailers in-line with their overall contribution to the tax-take of UK businesses. Retail business rates may be an efficient tax, but it no longer passes the "fairness test". On day 1 this proposal would achieve fairness in the tax system.

12. In this scenario, 75% of the current business rates revenue would still come from the existing system of business property taxation, and reform of the operation of the business rating system should therefore proceed at pace, to deal with its shortcomings – many of which are highlighted further down this report.

    Before setting out our response to the Call for Evidence, we want to stress the fundamental aspect of the business rates system as it applies to retailers (and indeed other consumer businesses) – **rates are a cost of doing business that have to be passed on to the customer in the overall retail price charged. Where, over time, the retailer is unable to pass these costs through, s/he may seek to negotiate a lower rent with their landlord in order to mitigate the unsustainable rates cost, but this only happens very gradually over time.**

13. Retail economics are really very simple. The retailer has to persuade its customers to pay more for the goods s/he sells than the price the retailer paid to buy them from the manufacturer. This "mark-up" has to cover all the retailer's other costs in getting the goods through the supply chain and in front of the customer. One of those costs is business rates.

14. For most of the period of "organised" retail history, from the late 19th Century until the Millennium, the nation's retail trade was conducted overwhelmingly in shops. Planning permission to operate a shop became sought after, leading to rising property values for retail use and,

correspondingly, high yields on business rates from the retail sector. Over time, this explains why a sector accounting for 5% of GDP is paying (pre-Covid) 25% of the nation's business rates bill.

15. The planning system was used to ensure an "even playing field" for retailers. Anyone starting a retail activity without the correct permission (for example on a small business park) would face prosecution. Retail activity outwith stores was confined to a small number of mail order businesses. As a profitable industry overall, retail was successful in passing the cost of business rates on to the consumer. And this is the fundamental point as it applies to retail business rates – it has been to all intents and purposes a consumer tax.

16. Over the last 20 years, an entirely legitimate alternate retail channel has developed – digital. Accounting for less than 1% of total retail sales in 2000, it has grown significantly and accounted for over 20% of total retail sales in 2019. The tax take from this channel is significantly lower than the equivalent sales made through the bricks and mortar channel. A digital retailer considering the "mark up" to be charged to the consumer to cover their operating costs has only a fraction of the business rates to pass on compared to a bricks and mortar competitor. It is one reason, amongst many, why the digital channel has created a competitive advantage and has taken share of the overall retail market. A consequence of this shift is that business rates is no longer simply a "consumer tax" to be passed-on. The differential taxes applied across channels in retail has led to business rates becoming a drag on profits for traditional retailers (which have halved in the past 5 years) and putting in jeopardy the future of many high streets and shopping malls.

17. Looked at from the Government's point of view, every £ of retail sales made through the digital channel yields less in business rates than an equivalent sale in a shop. Over time, that "channel shift" leads to a reduction in the economic attractiveness to retailers of operating shops, and they seek to reduce their operating costs in the "bricks and mortar channel". If reductions in business rates are not available, the most obvious savings come from reducing other property costs (rents) or payroll costs (jobs). Both of these latter actions have societal consequences:

1 Lower rents

18. For landlords, if rents attainable from the retail sector fall, the equivalent property values will fall, making it harder to justify ongoing investment in retail property. Significant falls in value, as we were seeing even before Covid, also lead to financial distress in the retail property sector. Some of the UK's largest property companies have exhibited such distress – Hammerson's share price is

down over 90% in 5 years, and INTU is in administration. Last year, The Postings shopping centre in Kirkcaldy was advertised for sale at £1. The owners of these companies are often pension funds, and so there is a direct link between over-taxing retail property and the outlook for pensioners.

19. Over time, capitalism operates in such a way that markets clear, as supply and demand is rebalanced. In retail, the *consumer* end of the market "clears" very rapidly – the price the consumer sees for the product is the price they pay, and if they consider it too high at one retailer they go elsewhere. Retailers who do not remain competitive in the market soon leave the market. The *property* end of the retail market does not clear rapidly – property cycles in the UK are protracted and become particularly problematic when developers cannot see attractive returns from the redevelopment of property from one use to another. An example is the traditional department store estate – when such stores close it is often 10 years or more before alternative developments emerge. In the meantime, empty or under-used properties lead to urban blight and the decay of high streets and local communities.

2 Fewer jobs

20. Property and payroll are the largest operating costs for a bricks and mortar retailer. A retailer whose rates bill is fixed/unresponsive to changed market circumstances will seek to make savings in payroll before ultimately deciding a store is unviable. Retail has for many years been the UK's largest private sector employer, and many of the jobs have been "entry-level" front-line jobs in shops. The BRC has previously forecast that the 3m jobs provided by the retail sector would fall by 25% by 2025.[8] The impact of Covid is highly likely to accelerate that process, and whereas pre-Covid Government could reassure itself that in an economy with full employment such jobs lost would be replaced elsewhere in the economy, we now fear there is no such reassurance. Unemployed people do not contribute tax revenues and consume less than their employed peers.

Ultimately, if costs cannot be cut far enough, the consequence is that retailers close stores, with societal and fiscal consequences.

[8] https://www.ft.com/content/79172064-dcae-11e5-827d-4dfbe0213e07

The impact of business rates on retail

21. In 2019/20, the Retail Sector Council undertook research to ascertain the nature of various tax and other costs, including business rates, facing the retail sector. The results of this were presented to the Sector Council in March this year. Some key findings from the research in relation to business rates are relevant to the Treasury's review, and we repeat these in this response. We would be happy to supply officials with the full report on request.

22. We surveyed major retailers seeking information across a range of costs for 2016/17 and 2017/18. Twenty-nine retailers responded to the survey, comprising major supermarkets, fashion retailers, health and beauty retailers and department stores. Respondents included 'pure play' (i.e. online-only) retailers as well as more 'traditional' bricks-and-mortar companies. Collectively, respondents accounted for a combined annual turnover of over £100bn and more than 25,000 stores across the UK.

23. The survey found that business rates were the single biggest tax cost burden by a substantial margin, accounting for 44% of total tax paid in both 2016/17 and 2017/18. By contrast Corporation Tax accounted for 13% of respondents' total tax burden in 2016/17, falling to 12% the following year. The chart below reflects the spread of costs for 2017/18.

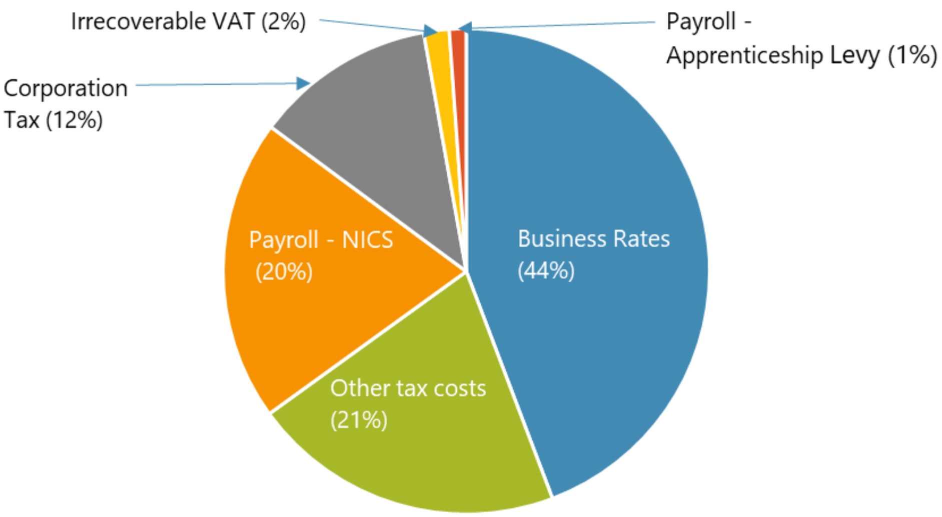

Figure 1 - Component elements of retailers' tax costs 2017/18

24. ‘Other tax costs’ paid by retailers constituted the second largest proportion of the tax burden after business rates. These included a wide range of taxes such as: Stamp Duty; environmental taxes; customs and excise duties; and taxes on insurance premiums.

25. Across all respondents, the total costs as a result of tax were £4.1bn in 2016/17, rising to £4.2bn in 2017/18. This means that respondents paid only slightly less tax than they made in profit in 2016/17 (£4.1bn tax vs £4.3bn profit), and that they paid *more* in tax in 2017/18 than they made in net operating profit (£4.2bn vs £3.5bn). The fixed cost nature of rates means that there is an adverse gearing impact on profitability when there is only a slight shortfall in sales. This means that retailers are forced to cut other costs earlier and more aggressively to protect their viability, and a stated above the axe inevitably falls on employment.

26. This reflects the rising tax costs borne by retailers outside of Corporation Tax as well as the reduction in margin as a result of other rising cost pressures. This income forgone could be used to re-invest in the industry, through improved physical stores, more efficient logistics or investment in staff productivity, but is instead claimed by the Treasury in what we regard as a direct disincentive to invest in our high streets, to the detriment of all concerned.

27. This rise in the overall cost of direct taxation occurred at the same time as the Government cut Corporation Tax from 20% to 19% (April 2017). While the tax cut was welcome, it was not enough to offset the rise in other tax costs in this period. This suggests that cutting Corporation Tax at a time of falling profits and rising costs has limited effect in reducing the tax liability of retailers given their significant property and payroll-based cost inputs.

28. This effect is illustrated in Figure 2 below, which shows the change in the various tax costs between the 2016/17 and 2017/18 periods. Despite the amount paid in Corporation Tax falling by over £100m, its relatively small contribution to the total tax burden means that the various individually smaller rises in the other taxes in the same period resulted in an overall tax *increase* for retailers. This effect is even more marked in percentage terms – for example, the total cost of business rates rose by 3.9% in this period, yet due to the significant proportion of this tax paid by the sector, this amounted to a £70m increase in tax costs, accounting for almost all the £83m net increase in tax costs experienced over the two years. What was ‘given away’ in Corporation Tax was more than ‘taken back’ by other tax rises in retail.

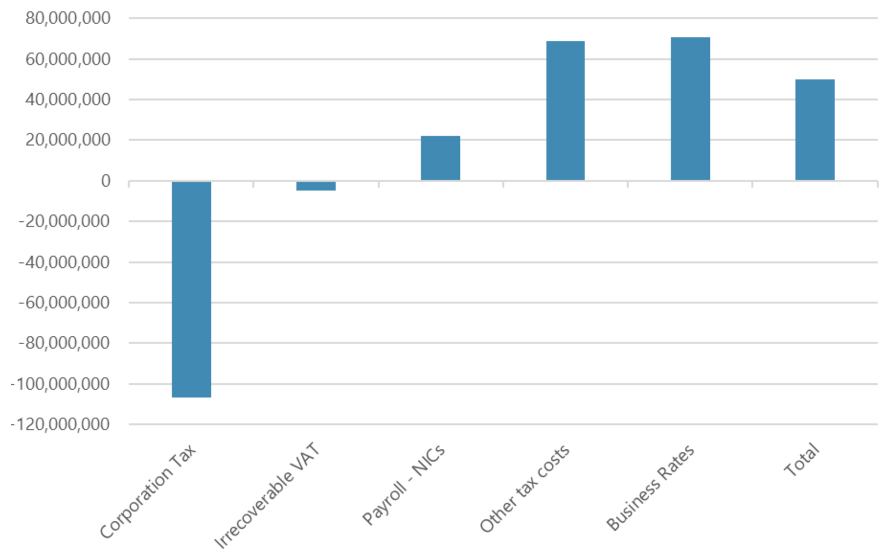

Figure 2 – changes in tax costs, £s - 2016/17–2017/18

Business rates

29. The survey asked respondents for information on business rates. As set out above, these are for many firms the largest component of their tax bill by a significant margin and are disproportionately paid by the retail sector as a whole.

30. The business rates multiplier, which is the proportion of a property's rateable value that must be paid in business rates each year, suggests that, in England, the rates burden should be 51.2% of rateable value in 2020/21. However, in practice, it has been observed that many properties, particularly outside London and south-east England, have much higher effective multipliers due to downwards phasing of transitional relief.

31. As a result, while rental values have been falling in many parts of the UK, business rates have not kept up with these rapidly changing values, and so many retailers face the perverse situation where, instead of paying around half of their annual rental value in business rates, they are paying significantly more. By way of example, three quarters of respondents to the survey had stores where they paid more than 50% of their annual rent in business rates; one respondent did so on every single one of its 11 stores. That rateable values are falling is a sign that sales and profits from these properties are in decline, and yet the lag in reducing the fixed costs of rates means that struggling businesses are put under more pressure at a time when they are least able to deal with this. The Government should be helping struggling businesses to survive where possible – not accelerating their decline with previously mentioned consequences for the economy.

32. Furthermore, 60% of respondents had stores where they paid more in business rates than they did in rent – i.e. where rates were more than 100% of their rateable value. For two respondents this was true of every single one of their combined 23 stores.

33. Transitional schemes that stagger the speed at which downwards rates revaluations occur impose artificially high business rate costs on retailers as they can take several years to pay their 'true' rate. However, even in cases where no transitional relief scheme applies, retailers often raise concerns that the basis of their valuation by the Valuation Office Agency (VOA) is incorrect.

34. The difficulty that many retailers report in interacting with the VOA's 'Check Challenge, Appeal' system compounds the problem of apparently inaccurate valuations as it is burdensome and resource-intensive to appeal inaccurate valuations, another problem noted by the Treasury Select Committee. If the data on rental values were more readily available, this would produce more accurate valuations, easing the frustration with the business rates system for ratepayers.

Business costs data from the Association of Convenience Stores (ACS)

35. ACS supplied the Sector Council with its own research into costs faced by the convenience sector. The ACS represents over 33,000 local shops and includes a diverse range of convenience store retailers, from stand-alone family-run independent stores to symbol groups to multiple convenience stores. These retailers operate in neighbourhoods, villages, on petrol forecourts and in city centres. The convenience sector as a whole is made up of 46,000 stores with a total turnover of £39bn.

36. The ACS's own research found that, in 2016/17, VAT made up the largest cost, followed by business rates (see Figure 7, below).[9]

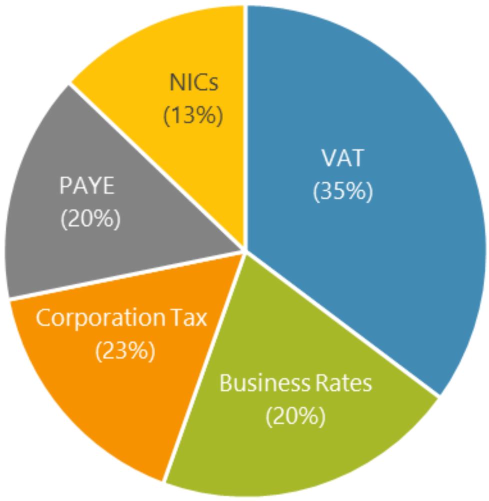

Figure 7: Top five costs for convenience stores 2016/17

37. This is a different distribution of the tax burden compared to the retailers surveyed by the Sector Council (and VAT in this survey was recorded as a cost to business, whereas it is in fact a cost to the consumer, but collected – very efficiently – by retailers). However, it should be noted that the retailers in the ACS survey are generally smaller and may not be as frequently located in prime shopping locations, and therefore will often incur proportionately lower business rates liabilities through having lower rateable values (or even being below the threshold for incurring business rates at all), while the nature of their business will mean that they incur a relatively larger share of excise liability (due the amount of alcohol and tobacco sold by them).[10]

38. The data shows that the cost to the convenience store sector of operating property – an unavoidable input for convenience stores – is higher than the amount it paid in Corporation Tax. The latter is arguably a fairer tax as it is only levied on the profits from business activity, as opposed to business rates, which are payable before a penny of turnover has been generated, yet business rates were the higher cost.

Retailer Roundtable

[9] The ACS research found that excise duties were the largest cost borne by their members, but for the purposes of consistency, and because these are borne by the end consumer, these have been excluded from this analysis.

[10] Source: ACS Economic Project 2018 – conducted on behalf of ACS by Retail Economics

39. The Sector Council also conducted a roundtable event hosted by the Scotland Office in Edinburgh on 4th June to gauge the views on friction costs facing retailers in Scotland. A range of retailers attended, representing fashion, food and homewares. While we are aware that the current review only applies to England, the issues raised by Scottish retailers are relevant to those experienced south of the border.

40. Attendees highlighted business rates as the single biggest 'deadweight' or friction cost to their business. They questioned the value that they received for them, and whether the notional connection to funding local services that, inter alia, support business was still the case given local government funding cuts in recent years.

41. Concerns were also raised at the apparent opacity of business rates valuations and difficulty of using the Valuation Office Agency's 'Check, Challenge, Appeal' system, leading to reticence to appeal even where retailers felt that valuations were incorrect. Some retailers paid more in business rates than they did in rent, and one attendee noted that the previous revaluation had resulted in a £300,000 rise in their business rates liability but without a clear explanation of the basis of this valuation.

42. Attendees also raised concerns at the forthcoming requirements to recycle plastics and glass. Requirements to have recycling facilities in shops were noted to be prohibitive, with the annual cost of renting a recycling machine being equivalent to the entire annual profit margin for a small shop. It should be noted that encouraging recycling and moving towards a circular economy is very much in the Nation's interest and should be supported by retailers. They can only do so, however, if the sector itself is healthy and investable. The Retail Sector Council has a workstream underway on supporting steps towards a circular economy.

43. One attendee noted that the result of all of these cost increases was that fewer full-time staff would be hired and that discretionary perks for employees were being cut back – reducing the scale and quality of employment that the retailer could offer.

Recommendations

44. Significantly reduce the tax burden – We note and welcome the intention in the Terms of Reference for this review to reduce the business rates burden on business. The next business rates revaluation will occur in 2023 and will be based on rental values as of 1 April 2021, reflecting what we expect to be a dramatic fall in rent costs following the Covid-19 pandemic. On this basis, we expect that the overall retail rates burden after 2023 will fall relative to other business sectors. It would be a mistake for Government to rely on this reduction to redress the historic retail rates burden. For many retailers, a fall in rates in 2023 will be too little, too late.

45. **The business rate multiplier - effectively the tax rate - should be significantly reduced as a matter of urgency, to 20p in the £**, **with effect from 1 April 2022. This would reduce the cost burden on retailers by c£4.8bn and put their overall business rates obligation on a par with their contribution to the wider economy. (Call for Evidence Question 6)**.

46. Abolish downwards phasing - Beyond the high level of the multiplier, the Sector Council's work on retailers' business costs highlighted the impact that the peculiar structure of the rates system has through its operation. Downwards phasing, which has staggered the rate at which businesses can benefit from lower rates bills in the 2017 ratings list, means that many shops are significantly overpaying their 'true' rates liability. This occurs in order to fund phased increases in bills for other businesses. Government must address the perversity where businesses are paying significantly more than 50% of their rateable value in rates – indeed some stores identified in our survey of retailers were paying over 100% of their assessed rental value in rates each year. **Downwards phasing of transitional relief must be abolished so that businesses that have been revalued and have lower valuations should pay those new, lower valuations immediately, not move towards them over the course of a valuation list period. (Call for Evidence Question 16).**

47. Such cases run against the principles of natural justice and fairness. The perceived need to make the business rates system internally self-financing is what drives this perverse approach. No other element of the tax system does this – income from other taxes rises and falls with the economy or with changes in behaviour. By contrast, the Treasury seeks a particular sum from business rates and then reverse engineers a structure to achieve it. As the Treasury Select Committee found, the business rates system is 'broken' and the outcome of the requirement for it to be self-financing

creates distortions and disincentives to investment and greater productivity.[11] **Government should abolish the requirement of raising a fixed sum from business rates each year and replace it with a fixed rate for the multiplier with the overarching goal of reducing the resulting rates burden We argue for a differentiated multiplier between retail and other business premises, to bring the yield from bricks and mortar retail in line with the sector's overall contribution to the economy. (Call for Evidence Question 7).**

48. <u>Transparency in property costs</u> - Commercial leases and freehold sales that meet certain criteria currently have to be declared to HMRC for Stamp Duty Land Tax (SDLT) purposes.[12] The amount of information contained within SDLT Forms 1 & 4 is significant and includes details of the annual rent and any rent-free periods. In addition, almost all leases signed since 2003 that have a term of more than seven years must be registered with the Land Registry.

49. Therefore, between HMRC and the Land Registry, the state holds a huge amount of data on the value and nature of most commercial leases and freehold sales. This data should be available to the Valuation Office when making their estimates of rateable value for business rates purposes. This would improve the accuracy of valuations, addressing concerns set out in paragraphs 63-64, and reduce the administrative burden of actively seeking valuation data from individual ratepayers during revaluations. This transparent approach could be further improved by reducing the ability to redact very large portions of commercial leases when they are submitted for registration with the Land Registry. The resulting increase in the transparency of the property market would increase investment by giving investors greater certainty over likely returns on investment. **Data currently held by the HMRC and the Land Registry on commercial property transactions is made available to the Valuation Office, that Government reduces the ability to redact very large portions of commercial leases when they are registered with the Land Registry, and that the prescribed clauses at the start of registrable leases are required to state the "all-in", true economic rent payable during the period through to any arms-length open-market rent review (Call for Evidence Question 26).**

[11] https://publications.parliament.uk/pa/cm201920/cmselect/cmtreasy/222/22202.htm
[12] In England and Northern Ireland. Different legislation applies in Scotland and Wales.

Alternatives to revenues from business rates

50. Section 6 of the call for evidence asks for views on the potential alternatives to business rates. Given the scale of Government revenues yielded from business rates, we regard it as unrealistic to replace the business rates system in total. However, as pointed out above, over a long period the yield from retail business rates has become disproportionately high and now distorts competition between bricks and mortar channels and digital channels. We argue above that the business rating system should be rebased, to a lower level multiplier of c.20 pence in the £.

51. The resulting lost yield to the Government would be approximately £4.8bn. **The Call for Evidence asks for views on whether a Capital Values Tax or an On-Line Sales Tax should be used for making up this or any other shortfall. Our answer is that neither of these should be used (Call for Evidence Questions 33-43):**

Capital Values Tax

52. As argued above, significant improvements could be made to the efficiency and fairness of the current business rates system by radically improving the transparency of the market and by basing rating yields on current (rather than periodic) valuations driven by digital insights (a national database of rental deals would be needed in the same way that freehold transactions are visible today).

53. Such improvements would mitigate against the potential attractions of a Capital Value Tax. There is good evidence that property-based taxes in open and transparent markets are quickly capitalised into land/property values (ie the owner bears the cost). The Danish experience (see https://onlinelibrary.wiley.com/doi/abs/10.1111/1475-5890.12163) is illustrative here. A radical improvement in the rating/valuation system could achieve this without the need to abandon the operation and collection mechanisms of the business rating system.

On-Line Sales Tax

54. The Call for Evidence rightly points out in 6.1.3 that "the business rates system creates a distortion in the retail sector, favouring on-line retailers…" We argue that this distortion should be reduced, but that the solution should not be to relieve bricks and mortar retail of its rating obligations only to impose the equivalent tax on on-line retailers. Were this to be done through an on-line sales tax,

the playing field would simply tip the other way so that "the on-line sales tax system creates a distortion in the retail sector, favouring bricks-and-mortar retailers".

Our recommendation

55. Instead we argue that the playing field should be levelled. The c.£4.8bn reduction in retail rates advocated in this submission could be recouped by Government through changes in VAT, meaning that the consumer would continue to pay this bundled into the retail price of the product. Alternatively, another level-playing field mechanism for recouping the rates reduction would be through Corporation Tax, although we believe this route should be pursued holistically through the OECD work currently underway.

56. Although beyond the scope of this submission, we believe there are many improvements that could be made to the VAT system. It has operated as a highly efficient and effective tax collection mechanism for Government (by and large, businesses do the work) but also works well for the consumer. Unlike sales taxes (eg GST in the USA), VAT is invisible to a retail consumer who simply sees, and pays, the VAT inclusive price. The VAT system can discriminate between products (eg zero rated essential items) and channels (eg take-away food vs food for home consumption). We recommend Government to look imaginatively at how the VAT system could be reformed (for example why is broadband – a basic 21st century utility – standard rated for VAT when other utilities carry a lower rate?) rather than introducing new taxes.