Fair and Affordable

Sinn Féin's Response to the Review of Non-Domestic Rates

January 2015

1 Context

In reforming non-domestic rates, a fair balance has to be struck between three main considerations. First, rates help fund **public expenditure**, generating £592m for the Executive and Councils in 2014/15. Given that the public finances are under considerable pressure the scope to raise additional income from rates should be explored. However this should be done in a strategic manner as part of a comprehensive review of *all* the Executive's revenue raising options, rather than as part of the current consultation exercise.

Second, rates are a major **cost to business**. The size of the rates bill, which averaged £10,819 last year (before reliefs and exemptions), can make or break a company, along with the employment and services it provides. It is also important to take into account the changing market context in which high street shops (traditionally well capable of shouldering a high rates burden) are under threat from out of-town retail parks and online shopping. An array of exemptions with a value of at least £221m (some are not valued) has further increased the burden on business ratepayers, including retailers, threatening their viability. It is imperative that reliefs are more selectively targeted in order to widen the tax base and make rates more manageable for individual ratepayers.

Third, rates are an instrument of **social and economic policy**, influencing how land and property are used. Rates have been criticised for not adequately encouraging the productive use of assets. Consider a business that invests in improving its property. This will increase the value of the property and result in a higher rates bill. Meanwhile a property that is left vacant receives 100% relief for 3 months and 50% relief thereafter. Furthermore, an owner who demolishes the building leaving it derelict will effectively be rewarded by being taken out of the rates system altogether. Another important consideration is how reliefs can be used to encourage beneficial social and economic activities that would not otherwise take place.

In this context Sinn Féin's proposals seek to ensure that non-domestic rates generate the required level of public revenue, in a way that is fair and affordable, and that advances social and economic development. The broad direction of travel we recommend is to lighten the rates burden through more selective use of reliefs and exemptions, particularly those directed towards the unproductive use of assets.

2 Regularity of valuations

Valuations have been conducted sporadically (in 1997, 2003 and 2015). More regular valuations are required to ensure that rates bills adjust quickly to changing market conditions and to prevent a situation in which businesses receive a large unpredicted rise in their rates bill. Ideally, valuations would be conducted annually but given the administrative cost involved a reasonable compromise must be found. In order to provide businesses with certainty it is also important that that the regularity of valuations is embedded in legislation.

Position: Valuations should be carried out every three years and embedded in legislation.

3 Valuation methodology

Rates are levied on the basis of the Net Annual Value (NAV) of a property in its entirety - that is the land and improvements (buildings etc) thereon together. Derelict land is not subject to rates at all. This creates some undesirable incentives. A business may be discouraged from improving its property because it will effectively be penalised with a higher rates bill. Meanwhile a landowner may be encouraged to leave land undeveloped, because it allows them to avoid rates.

The consultation document highlights the option of a Land Value Tax (LVT), which would involve valuing land and improvements separately, and levying a higher rate on land relative to improvements.[1] This would reduce the disincentive to improve property. It would also tax land in a way that could discourage landbanking and property speculation – a major cause of property bubbles and the associated mortgage debt. Consequently LVT would advance the first objective of the DSD Housing Strategy: "to create the right conditions for a stable and sustainable housing market that supports economic growth and prosperity". As the consultation document notes the technical outworkings of LVT require further consideration.

Position: DFP should explore the practicalities of LVT and bring forward proposals for consultation.

4 Non-domestic (charitable) exemption

Charities have been completely exempt from rates since the tax was introduced in the nineteenth century. A number of concerns have been voiced, but attention has increasingly focused on the prominence of charity shops in the high street, which are seen as competing with commercial firms. DFP endorse this view, suggesting that relief could be reduced in those circumstances. However the issue is more complex. The rise of high street charity shops is a symptom of the changing commercial context, outlined above, in which the high street is under threat from out-of-town retail parks and

[1] Note that the method of valuation is separate from and has no bearing on the set of reliefs that are provided.

online shopping. Targeting charity shops may simply lead to premises that would otherwise be occupied becoming vacant, further reducing footfall and exacerbating the decline of the high street. If private firms are to repopulate the high street, rates must be made more affordable. This can be achieved by reducing reliefs and sharing the rates burden more equitably. With this in mind more comprehensive consideration should be given to the charitable relief which represents a substantial £87m.

Position: DFP should bring forward proposals to reform the charitable exemption.

5 Industrial de-rating

Manufactures receive 70% relief on their rates bill. With a value of £58m this is a substantial relief. However there are exceptional circumstances given the high energy costs faced by manufacturers (which are energy intensive businesses) and the fact that manufacturers tend to occupy a large amount of land and therefore pay a high volume of rates. In addition, as recent jobs closures have highlighted manufacturing is in an extremely precarious state.

Position: Manufacturing relief should be retained for the lifetime of the next Programme for Government.

6 Empty property relief

When a business property becomes vacant there is a 100% exemption for 3 months and a 50% exemption thereafter.[2] The rationale is that it can take time and investment to re-let a property. However vacancies are a social and commercial blight and it is important to ensure that the property is brought to market in a reasonable timeframe. In addition, with a value of £41m the relief represents an unreasonable burden on other ratepayers.

Position: vacant properties should be subject to a 100% exemption for the first 3 months, a 50% exemption for the next 3 months, and zero relief thereafter.

7 Small business relief scheme

Introduced in 2010 this automatically reduces the rates bills of non-domestic properties with a low NAV. An evaluation found that while the scheme helped with cash flow there was little evidence that it added to business survival rates, employment, or investment. It should also be noted that the scheme was introduced in response to the recession, and while the recovery is slow these emergency circumstances no longer apply. That said, small businesses do merit particular consideration, as rates

[2] There is no such relief in England or Wales. In Scotland empty properties receive 100% relief for 3 months and 10% relief thereafter.

make up a relatively large proportion of their turnover and overheads. FSB has suggested a number of potential solutions, including a rates allowance, similar to the Personal Allowance for Income Tax, This would automatically reduce the rates burden for businesses in lower value properties. But further modelling and consultation on the options is required.

Position: DFP should bring forward proposals to replace the SBRS with a more targeted scheme.

8 Residential homes

This represents a relief of £8.3m but as recent closures demonstrate the residential home sector is in a precarious financial situation. In addition, adjusting to the higher minimum wage over the next four years will be challenging.

Position: the residential homes allowance should remain.

9 Amateur sports clubs

Relief for amateur sports clubs is justified as many such clubs will not be able to pay full rates and because of the contribution of sports to health and well-being. Indeed consideration should be given to extending the relief to 100% given the critical need to promote exercise in the context of increasing health problems linked to obesity and the relatively small amount of money involved (£1.1m).

Position: relief for amateur sports clubs should be extended from 80% to 100%. However the relief should not apply to club bars as this represents competition with nearby pubs and restaurants.

10 Derelict land

The exclusion of derelict land and brown field sites from rates encourages landbanking and creates a disincentive to development. LVT would resolve this by automatically taxing derelict land but in lieu of that a derelict land tax could be introduced. The method of valuation is key to the effectiveness of the tax. For example under the present system the NAV of derelict land will be negligible, negating the purpose of the tax. Valuations based on highest and best use would impose a high holding cost but presents technical difficulties.

Position: DFP should bring forward proposals for taxing derelict land.

11 Agricultural Land

Given the significant difficulties facing the rural economy we see no reason to amend the exemption for agricultural land.

Position: the agricultural exemption should remain.

12 Regeneration

There has been little change in geographical patterns of deprivation in the north. While disadvantaged areas will invariably have a lower rates bill it is worth considering whether areas in deprivation or in decline would be more likely to attract investment if additional relief was provided. While this would be unlikely to radically improve an area's appeal to investors in isolation, it could be effective as part of a wider regeneration plan. The costs and benefits of using rates in this manner need to be considered on a case-by-case basis.

Position: rates exemptions should be considered as part of regeneration strategies.

13 Sustainable energy

In responding to the threat of global warming it is vital to promote a sustainable approach to energy use and generation. Changes to the rates system may assist in this goal. For instance relief could be used to incentivise investment in the energy efficiency of buildings or the generation of renewable energy.

Position: DFP should bring forward proposals to incentivise more efficient use of energy and the generation of renewable energy though the rating system.

14 Further information

Please contact Eoin Rooney

eoin.rooney@sinfein.ie