The 100 Group

Taxation Committee

HM Treasury
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By e-mail businessrates.review@hmtreasury.gsi.gov.uk

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Dear Sir/Madam

Business Rates Review Discussion Paper

We welcome the opportunity to comment on the Business Rates Review Discussion Paper

Who we are

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent around 90% of the market capitalisation of the UK FTSE 100 Index, and in 2014 paid, or generated, taxes equivalent to 14% of total UK Government receipts. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

Our views

We welcome the Government's commitment to conduct a wide-ranging review into the structure of business rates. The 100 Group members collectively paid business rates of £4.4bn according to the 2014 PWC Total Tax Contribution survey, which represents 16.5% of the total amount of business rates collected annually.

There is consensus from within the business community that the current system is not fit for purpose and unsustainable for a modern, 21st century economy. As currently configured, the business rates system in the UK is outdated, opaque and inundated with a myriad of exemptions and reliefs which only go to highlight the extent to which the system is not sustainable in its current form. Therefore, the key aim of the structural review should be to introduce reforms to business rates which deliver a simpler, more transparent system that is also fairer to businesses of different sizes and sectors operating across different regions of the country.

One of the key issues with the current system is that it unduly penalises property-intensive businesses, with retailers, manufacturers, leisure groups and commercial property businesses amongst those most affected.

The Government must address this inequity in order to support industries that rely on large amounts of physical property space. Otherwise, the Government could be faced with even higher vacancy rates and a smaller and narrower tax base over time - a scenario that would make business rates less sustainable, as a higher proportion of tax is gradually levied on fewer ratepayers.

Similarly, while we applaud the Government's previous efforts to deliver an internationally competitive UK business tax system (such as the steps taken in the last Parliament to reduce corporation tax to the current level of 20%), business rates in the UK currently represent the highest commercial property rate of tax in the EU and one of the highest in the OECD. Consequently, the structural review presents the ideal opportunity for the Government to address this imbalance by considering reforms to make the system more internationally competitive and to improve the attractiveness of the UK as a destination for business investment.

Furthermore, the review must tackle one of the key distortions in the current business rates system, which is the inflexibility of business rates and the failure of the system to take into account national and local economic conditions. Business rates are treated as a fixed cost rather than a tax, because rates contributions do not take into account either business performance or their ability to pay. To address this, the Government must focus on restoring fairness to the system by ensuring there is flexibility for business rates to respond to economic cycles. This means there should be some fluctuation in business rates revenues year to year, like the vast majority of other taxes.

In addition, there is a strong argument to remove the perverse incentives that exist within the method of calculating business rates through property rental values. To take one example, businesses that choose to invest in new energy efficient products and technologies, such as roof-mounted solar panels, are effectively penalised for doing so because the subsequent increase in the valuation of their property is met with a higher business rates liability.

To summarise, we believe the review should adhere to the following key principles for reform:

- Simpler and fairer to businesses across the UK
- Internationally competitive
- Flexibility to respond to national and local economic conditions
- Include incentives to encourage business investment

Consideration must also be given to whether a lower burden of business rates on both large and small businesses could have positive, second-round tax effects on investment, employment and economic growth, satisfying the Government's request for the review to be fiscally neutral overall. A wide definition of fiscal neutrality is therefore paramount as the structural review progresses.

We encourage the Government to consider all alternative reform options presented by stakeholders during the review process and not to limit the review to just a property based system, drawing on further independent research and analysis as appropriate. The key objective by March 2016 should be to set out a clear vision for business taxation which incorporates the future role and structure of business rates within that framework. Businesses will ultimately judge the success of the structural review on whether the Government provides a detailed roadmap for business rates reform, setting out key milestones for policy changes and how the reforms will be delivered efficiently and cost-effectively in close dialogue with businesses.

We would be very happy to discuss this in more detail with you. Please do get in touch if you wish to discuss this further with me and the Committee.

Yours sincerely

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