



TAXREP 33/15 (ICAEW REPRESENTATION 89/15)

BUSINESS RATES REVIEW: TERMS OF REFERENCE AND DISCUSSION PAPER

ICAEW welcomes the opportunity to comment on the document [Business rates review: terms of reference and discussion paper](#) published by HM Treasury in March 2015.

This response of 12 June 2015 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

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INTRODUCTION

1. We welcome the opportunity to comment on the [Business rates review: terms of reference and discussion paper](#) published by HM Treasury on 16 March 2015.
2. We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

GENERAL COMMENTS

3. We note that the government's intention is to ensure that the business rates system is fit for a 21st century economy and that its preference is for business rates to remain a tax based on property values.
4. The advantage of using property values, particularly where these remain fixed for several years, is certainty. Businesses will know how much they will need to pay over the next few years and can budget accordingly. The disadvantage is that failing to have regular revaluations means that values may not keep pace with the changing success or failure of a local economy.
5. We have not undertaken recent research in this area and our comments are based on anecdotal evidence and suggestions collected from our volunteers.
6. It was interesting to note that while our news item on this review gathered a great number of views, there were few new ideas for reforming the system. Most businesses seem to see rates as a burden which can fall unfairly on some businesses, particularly during times of hardship. That a landlord who is unable to let an empty property during a period of recession still has to pay rates, even though the business is not using public services, can be a significant cash flow problem.

SPECIFIC COMMENTS

7. Business rates are a particular problem for small businesses, where the cost can be disproportionate to expected turnover and to the profitability of a particular type of business. Consequently, many high street premises are occupied by estate agents and financial services businesses rather than by newsagents and shops selling low margin products and services.
8. The current small business rate relief (SBRR) is very welcome. This is currently fixed at 100% but only until 31 March 2016 and we suggest that this should be continued for the duration of this government. This would give certainty to the small businesses currently relying on this relief.
9. The current rules do not give any relief for a business during its start-up period. While this is not currently a problem, it seems likely that SBRR is to some extent masking a problem. Other parts of the tax system recognise that a business needs to invest heavily when it starts trading, for example through giving 100% relief for capital expenditure through the annual investment allowance or by allowing sideways loss relief through the opening year loss rules. A similar relief should be considered for business rates. This would support growth through start-ups.
10. Business rates are used to fund public services however only businesses requiring a high street presence actually fund these. It could be argued that a business operating from a warehouse based outside central London, but which then uses the London Underground to courier packages, is using public services far more than a newsagent in Waterloo, yet the former will pay considerably less towards the cost of these public services.
11. As new business models, particularly online businesses, require less high street frontage, the balance between users of services and payers will become an increasing problem as the tax base shrinks.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see via <http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/tax>).