



BRIEFING PAPER

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Business rates

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Summary

This note provides a brief guide to the system of non-domestic rating, better known as 'business rates'.

Business rates are a property tax paid by occupants of non-domestic properties. The basic rates bill is determined by multiplying the rateable value of a property (a 'hereditament') by the 'multiplier'. A property's rateable value is set by the Valuation Office Agency (in Scotland, the Assessors; and in Northern Ireland, Land and Property Services) at regular intervals.

The multiplier is expressed in pence per pound of rateable value. It is set by the UK Government in England and by the Scottish and Welsh Governments in Scotland and Wales. In Northern Ireland, both the Northern Ireland Executive and the district councils set separate rating multipliers, with the full rate liability collected by the councils.

Billing authorities (district and unitary councils) collect business rates. In England, the revenue is partly pooled at central government level and redistributed, and part is retained locally. In Scotland and Wales, the rates collected are pooled at the devolved level and redistributed to the billing authorities via a needs-based formula. Scotland also operates a Business Rate Incentive Scheme.

Various reliefs, both mandatory and discretionary, are available from full business rates liability. Limited powers also exist for local authorities to set supplementary business rates.

Business rates are devolved to Scotland, Wales and Northern Ireland. This note focuses on the operation of the business rates system in England.

A further Library briefing, [Reviewing and reforming business rates](#), covers developments in 2015 and 2016 in more detail. Additional detail on the revaluation of business rates coming into effect on 1 April 2017 can be found in the Library briefing [Business rates: the 2017 revaluation](#).

A detailed briefing on the *Local Government Finance Bill* can be found in the Library briefing papers [The Local Government Finance Bill 2016-17](#) and [The Local Government Finance Bill 2016-17: progress of the Bill](#).

1. Non-domestic rates

1.1 Background

Non-domestic rates, or ‘business rates’, are a tax on non-domestic property. Rates have been in existence in some form since the Poor Law of 1601, though a standardised system of non-domestic rating dates to the *Rating and Valuation Act 1925*. The current system dates from the [Local Government Finance Act 1988](#).¹ Rates are levied on business properties on the basis of their **rateable value** and the national **multiplier**, and the amount payable may then be subject to a number of **reliefs** or **exemptions**.

1.2 How are rates bills calculated?

The **rateable value** (RV) of a property is the first element in the calculation of the rates bill. Rateable values in England, Wales and Scotland are assessed on a five-yearly basis (though see section 5 below) by the [Valuation Office Agency](#) (VOA), which is an executive agency of HM Revenue and Customs. In Scotland this task falls to the [Scottish Assessors](#), and in Northern Ireland to [Land and Property Services](#). Normally the RV of a property reflects the annual rent that it could have been let for on the open market (though see section 7 below).

The second element in the rates bill is the **multiplier**, which is normally expressed in pence per pound. This is set by the UK Government for England, the Scottish Parliament for Scotland, and the National Assembly for Wales. In Northern Ireland, district councils set one multiplier and a further one is set by the Northern Ireland Executive. Before the introduction of the 1988 Act, the billing authorities in England, Scotland and Wales set the multiplier locally. The multipliers for 2016-17 are shown in the table below.

Table: business rate multipliers, 2016-17

Location	Multiplier	Small business multiplier	Supplementary multipliers
England	49.7p	48.4p	
Scotland	48.4p		51.0p (large business)
Wales	48.6p		
Northern Ireland	32.4p		District council multipliers ranging from 20.12p to 28.38p, hence a cumulative multiplier of 52.52p to 60.78p. ²

¹ Technically, the 1988 Act introduced the ‘National Non-Domestic Rate’ (NNDR) in place of local business rating. However, the phrase ‘business rates’ remained in use throughout.

² See [the full list of district council rates](#) on the website of the Department of Finance and Personnel.

In England, Scotland and Wales, in each financial year, the multiplier may be raised by a maximum of the inflation rate of the Retail Price Index (RPI) from the previous September.³ This would be changed by clause 5 of the *Local Government Finance Bill 2016-17*.

The basic business rate liability for a property is calculated by multiplying the rateable value of a property by the multiplier. Hence, a property with a rateable value of £100,000, where the multiplier was 49.3 pence in the pound, would have an annual business rate liability of £49,300.

1.3 Collection of rates

Bills are sent out and rates collected by **billing authorities**. These are district councils (in two-tier areas), unitary councils, metropolitan borough and London borough councils. In Wales, the unitary local councils are the billing authorities; in Scotland, the unitary councils are the 'levying authorities'; and in Northern Ireland, the task falls to the district councils. Ratepayers may pay in monthly instalments, as with council tax.

The billing authorities are responsible for deciding whether to apply any exemptions or reliefs to individual businesses or properties. Some reliefs are mandatory, whilst others are given at the discretion of the billing authority.

Unlike property taxation in many other states, the **occupier** of the property is liable for business rates. In most cases, owners become liable where a property is unoccupied.

³ See DCLG, [Business Rates Information Letter 3/2015](#). The multiplier has always risen by this amount, until 2014-15 and 2015-16, when a 2% cap was applied in England, and matched in Scotland and Wales.

2. Reliefs and discounts from business rates

Various reductions in liability for business rates are available. A relief does not change the rateable value of a non-domestic property: it is a discount from the payment owed by the liable business. If the occupier of the property changes, the business rates liability may also change. Separately, certain types of property are exempt from business rates.

Some reliefs are mandatory, whereas others are given at the discretion of the billing authority. It is for the billing authority to interpret the law when applying mandatory reliefs in their area, in the light of case law, and to make decisions on discretionary relief.

This section sets out the available reliefs, dividing them into reliefs that are permanent parts of the business rates system and temporary reliefs introduced to address short-term issues.

2.1 Permanent reliefs

Relief for small businesses in England

As of 1 April 2017, permanent changes will be introduced to the Small Business Rate Relief system.

- Properties with a rateable value of £12,000 or less are entitled to 100% business rates relief;
- Properties with a rateable value of £12,001 to £15,000 are entitled to a tapering discount from 0% to 100%, on the basis of 1% relief for every £30 of rateable value;
- Properties with a rateable value of £15,001 to £50,999 will be subject to the small business multiplier.

Up to 31 March 2017 small business rate relief is available as follows:⁴

- Properties with a rateable value of below £6,000 are entitled to 100% relief;
- Properties with a rateable value of £6,001 to £12,000 are subject to a tapering discount ranging from 0% to 100%, on the basis of 1% relief for every £60 of rateable value;
- Properties with a rateable value of £12,001 to £17,999 (£25,499 in London) are subject to the small business multiplier only.⁵

Businesses with more than one property are only eligible for small business rate relief if their additional property or properties all have rateable values of under £2,600, **and** the total rateable value of all their properties does not exceed £17,999 (£25,499 in London).⁶ These figures will increase to £2,900, £19,999 and £27,999 as of 1 April

⁴ DCLG, *Business rates information letter 9/2011*, 22 December 2011; *Non-Domestic Rating (Small Business Rate Relief) (England) Order 2012* (SI 2012/148).

⁵ The small business multiplier has existed since 2003-04. The standard multiplier must be set taking into account the loss of revenue resulting from the existence of the small business multiplier.

⁶ See the *Non-Domestic Rating (Small Business Rate Relief) (England) Order 2012* (SI 2012/148)

2017.⁷ The relief is only available on the main property, not on any smaller properties that the business occupies.

The 2013 Autumn Statement introduced a year's grace for businesses which take on any additional properties which would make them ineligible for small business relief.

Charitable relief

Properties which are occupied by charities and wholly or mainly used for charitable purposes are entitled to a mandatory reduction of 80% in business rates, as are community amateur sports clubs (CASCs).⁸ Billing authorities have the discretion to increase this to 100%.⁹ It is for the billing authority to determine whether a property is 'wholly or mainly used for charitable purposes'. Case law establishes that the use of the property, not merely whether the occupant is a charity, is key.¹⁰

Rural rate relief

Public houses or petrol stations which are the only such business in a rural settlement, and which have a rateable value of less than £12,500, are entitled to 50% mandatory Rural Rate Relief, which can be topped up to 100% at the billing authority's discretion. Sole shops, general stores or post offices with a rateable value of less than £8,500 are also entitled to this.¹¹ Local councils in Wales can also give relief to other rural retail businesses of up to 100% (for properties with a rateable value under £16,500).

Rural Rate Relief takes precedence over Small Business Rate Relief, so it is possible for a property to attract a 50% mandatory discount under the former, in place of a 100% mandatory discount under the latter. This anomaly would be abolished as of 1 April 2018 by the *Local Government Finance Bill 2016-17*. The Government has written to billing authorities stating that it also expects them to award 100% rate relief to all properties qualifying for rural relief in 2017-18. It will compensate authorities for revenue foregone via a section 31 grant.¹² Currently, billing authorities have discretion (but no obligation) to top up the discount to 100%.

Discretionary relief

Section 69 of the [Localism Act 2011](#) provides a discretionary power for billing authorities in England and Wales to reduce the business rates of any local ratepayer. The Government has not issued guidance on how this power might be used, though councils must ensure that the reliefs

⁷ DCLG, [Business Rates Information Letter 1/2017](#), 24 January 2017: see also the [Non-Domestic Rating \(Reliefs, Thresholds and Amendment\) \(England\) Order 2017](#) (SI 2017/102).

⁸ A list of registered CASCs is available at <http://www.hmrc.gov.uk/casc/clubs.htm>. For a definition of the category, see the [Community Amateur Sports Clubs Regulations 2015](#) (SI 2015/725).

⁹ See the *Local Government Finance Act 1988*, sections 43 and 47.

¹⁰ See, for instance, [Public Safety Charitable Trust v Milton Keynes](#) (2013); see also the Government's 2015 paper [Business rates avoidance: summary of responses](#).

¹¹ See the *Local Government Finance Act 1988*, section 43.

¹² DCLG, [Business Rates Information Letter 1/2017](#), 24 January 2017.

they allow do not transgress state aid rules.¹³ Billing authorities cannot give themselves rate relief under this provision, nor can they give relief to precepting authorities or London functional bodies.¹⁴ A Written Answer in October 2013 provided figures for the amount of business rate relief granted under this power.¹⁵

A power also exists to grant relief if a business would suffer 'hardship' if they had to pay their full business rates liability. There is no definition of 'hardship' in legislation, though relevant case law exists. The billing authority must take into account the interests of council tax-payers in their area before granting hardship relief. This power has largely fallen into disuse since the introduction of discretionary relief.

2.2 Temporary reliefs

Flooding relief

In recent years, the Government's policy has been to fund full relief from business rates for businesses that have become unable to trade during periods of severe flooding. For instance, following 'Storm Desmond' in late 2015, the then Secretary of State for Communities and Local Government, Greg Clark, announced:

We have offered council tax and business rate relief to those affected. As part of the recovery scheme, my Department will make funding available to enable councils to offer a 100% council tax discount to anyone who is unable to occupy their home and a 100% business rates discount for firms that have been impacted by flooding. This will be made available on at least as generous terms as in 2013-14.¹⁶

Businesses affected by the severe flooding in early 2014 were entitled to three months full relief from business rates. This followed a statement from the Prime Minister in February 2014.¹⁷ The decisions to grant this relief were to be taken by billing authorities, with the Government reimbursing them for any lost revenue.

Retail relief

A discount of £1,000 on business rates bills for retail premises with a rateable value of up to £50,000 was introduced for 2014-15.¹⁸ This was increased to £1,500 for 2015-16.¹⁹ This was a flat rate on all qualifying premises, irrespective of the number of properties occupied by the business or other existing discounts. It did not apply to empty properties. Billing authorities were fully reimbursed by central government for any relief granted.

¹³ For further information see DCLG, *Business Rates Information Letter 6/2012*. Some guidance on the state aid rules is available at DCLG, *Enterprise zones: state aid and business rate discounts*, February 2012.

¹⁴ *Local Government Finance Act 1998*, s47 (8A-9)

¹⁵ See [HCDeb 31 Oct 2013 c567-8W](#)

¹⁶ [HCDeb 17 Dec 2015 c94WS](#)

¹⁷ See DCLG, "[New measures to help communities hit by flooding](#)", 12 February 2014

¹⁸ HM Treasury, *Autumn Statement*, 2013, p45-6

¹⁹ HM Treasury [Autumn Statement 2014](#), 2014, p45-6

Guidance on the definition of 'retail premises' was available in the Government's guidance note on the scheme.²⁰

Reoccupation relief

From 2014-15, the Chancellor introduced a 50% discount from business rates for new occupants of previously empty retail premises. The discount would last for 18 months. The relief was available to businesses moving in to properties between 1 April 2014 and 31 March 2016. The new occupants were not themselves required to be retail businesses.

Guidance published in March 2014 provided lists of types of property which would and would not be intended to benefit from the relief.²¹ The relief was granted under local discretionary discount powers, and local authorities were reimbursed for the full amount of relief granted.

Enterprise zones

Businesses moving into Enterprise Zones (EZs) before April 2015 are entitled to a 100% discount for five years. This is awarded at the discretion of the billing authority, but will be funded by the Government. The Government will also fund any existing discounts that are being awarded in the zone:

The regulations provide for the costs of *any discount* under section 47 (i.e. including discounts to existing business and empty properties) granted in the zone, provided it complies with state aid de minimis limits, to be offset against the billing authority's contribution to the central pool.²²

Local newspaper relief

At the July 2015 budget, a consultation was published on introducing business rate relief for local newspapers.²³ The 2016 Budget then committed to introducing a discount on business rate bills for local newspapers:

The government will introduce a £1,500 business rates discount for office space occupied by local newspapers in England, up to a maximum of one discount per local newspaper title and per hereditament, and up to state aid limits, for 2 years from 1 April 2017.²⁴

Telecommunications relief

In the 2016 Autumn Statement, the Chancellor announced a new relief on business rates for telecommunications infrastructure:

²⁰ See DCLG, [Business Rates retail relief – guidance](#), 2014, p. 5-6

²¹ DCLG, [Business Rates Reoccupation Relief: guidance](#), March 2014

²² See the [Non-Domestic Rating Contributions \(England\) \(Amendment\) Regulations 2012](#); also DCLG, [Business Rates Information Letter 5/2012](#). The Government will provide a grant equal to the revenue foregone by the local authority, thus avoiding the 50/50 split under the Business Rates Retention Scheme referred to in section 2 above.

²³ See DCMS/DCLG, [The case for a Business Rates Relief for local newspapers](#), July 2015

²⁴ Ibid.

... from April [2017] we will introduce 100% business rates relief for a 5 year period on new fibre infrastructure, supporting further roll out of fibre to homes and businesses.²⁵

This would be implemented via clause 8 of the *Local Government Finance Bill 2016-17*.

The Autumn Statement documentation estimated that this, together with the changes to rural rate relief, would reduce business rate revenue by £10 million (compared to retaining the current provisions) in 2017-18, rising to £25 million by 2021-22.²⁶

Empty commercial property relief

In September 2013 the Government announced a full exemption from rates, in England, for newly-built commercial property that is empty.²⁷ The exemption applied for the first 18 months after the property was completed. This 18-month period included the existing three/six month exemption for empty properties, rather than being additional to it. It was available to properties completed between 1 October 2013 and 30 September 2016. The Government reimbursed local authorities for revenue lost due to applying the relief.

²⁵ [HCDeb 23 November 2016 c903](#)

²⁶ HM Treasury, [Autumn Statement](#), 2016, p23

²⁷ See DCLG, [Business rates: new build empty property – guidance](#), September 2013

3. Empty property

Since 1 April 2008, owners of empty property in England and Wales have been liable to pay the full business rate (subject to any other reliefs that they might be entitled to). Empty property is exempt for a three-month period from the date on which the property became empty (six months for industrial and storage premises).²⁸ Empty properties with a rateable value of under £2,600 are entirely exempt from business rates (to be raised to £2,900 for 2017-18).²⁹

Empty properties held by charities and companies in administration are exempt from business rates. Following consultation, listed buildings' exemption was retained.³⁰

In Scotland, empty properties have attracted 90% of the normal business rate liability since 1 April 2013; previously the liability was 50%.³¹

The empty property must be occupied for at least six weeks before a further three / six-month exemption period can begin. If there has been less than six weeks' occupation, the exemption period does not re-start: only the **remainder** of the **original** three-month exemption period is available.

Some companies have occupied very small parts of industrial premises for just over six weeks, in order to trigger a further six-month exemption and minimise their liability for business rates. A court case in July 2012, [Makro Properties v Nuneaton and Bedworth District Council](#), upheld the occupier's claim to a further six-month exemption in such a scenario.

A property that is only partially occupied, or minimally occupied, is likely to be defined as occupied for business rates purposes, under the principle 'occupation of part is occupation of the whole', which originates in business rate case law.

²⁸ The changes were made via the [Non-Domestic Rating \(Unoccupied Property\) \(England\) Regulations 2008](#), (SI 2008/836). Prior to the 2007 Act, industrial and storage premises enjoyed indefinite exemption from business rates.

²⁹ See the [Non-Domestic Rating \(Unoccupied Property\) \(England\) \(Amendment\) Regulations 2010](#) (SI 2010/408); and the [Non-Domestic Rating \(Unoccupied Property\) \(Wales\) \(Amendment\) Regulations 2011](#) (SI 2011/197). This figure was temporarily raised to £15,000 for 2009-10 and £18,000 for 2010-11 in the light of economic conditions: see [HCD 13 Dec 2010 c61-62WS](#)

³⁰ HM Treasury, [Building Britain's long-term future: Prosperity and fairness for families: Budget 2007](#), p73; 216. See also DCLG, [Modernising empty property relief: a consultation paper](#), July 2007

³¹ See the [Non-Domestic Rating \(Unoccupied Property\) \(Scotland\) Amendment Regulations 2013](#) (SI 2013/37).

4. Additional levies on business rates

Two routes currently exist to apply an additional (supplementary) business rate at a local level: Business Improvement Districts and Business Rate Supplements. Two more will be introduced by the *Local Government Finance Bill 2016-17*: infrastructure supplements and property owner levies.

4.1 Business Improvement Districts

Local authorities may create Business Improvement Districts, on demand, for specific areas within the locality. These are to be established and run by local business groups, who must also determine the geographical area covered. The local businesses must develop a prospectus for the spending of the money, and the scheme must be approved by a majority of the prospective rate-payers, both by rateable value and number, in a referendum. The billing authority will collect the additional revenue and make it available for spending according to the prospectus. Further details are available in the Library briefing paper [Business Improvement Districts](#) (SN/PC/4591).

Property owner levies

The *Local Government Finance Bill 2016-17* would provide for 'property owner levies' to be levied in BID areas. These would be payable by the property owners, rather than occupants. As with BIDs, a referendum of the affected property owners, with a majority both in number and rateable value, would be required. The Bill makes ancillary provisions to require occupants to provide information about owners.

4.2 Business Rate Supplements

Local authorities in England and Wales may levy a supplement on the standard business rate under the [Business Rate Supplements Act 2009](#). The only supplement scheme in existence so far is a 2% supplement on businesses in the area of the Crossrail development in London; the revenue will help pay for Crossrail.³²

The main features of the BRS legislation as it currently stands are:

- All proposals for the imposition of a BRS, and all variations to the original prospectus, must be approved by a majority, by number and by rateable value, of all those eligible to vote.³³ This replicates the provisions made for Business Improvement Districts. This provision was brought in by section 68 of the [Localism Act 2011](#). Prior to this, a ballot was only required where the supplement was

³² The Crossrail BRS was established before the legislative requirement for a vote on a BRS was brought in – see the following footnote. See also [Crossrail business rate supplement](#); also the Library briefing paper [Railways: Crossrail](#) (SN/BT/0876).

³³ Section 68 of the *Localism Act* was brought into force in England from 15 January 2012 by the [Localism Act 2011 \(Commencement No 3\) Order 2012](#) (SI 2012/411). Eligibility to vote is limited to those who would be liable to pay: see sections 6 and 7 of the *Business Rate Supplements Act 2009*.

to fund more than a third of the total cost of the relevant project(s);

- Only the highest tier of local authority is to be entitled to levy a BRS. In London, the power rests with the Greater London Authority;
- BRS revenues must be spent on economic development (see the Government guidance).³⁴ In addition, the 2009 Act specifies certain matters on which a supplement may not be spent;³⁵
- a national upper limit of 2p per £1 of rateable value will apply (i.e. the multiplier can be raised by 2 pence in the pound);
- levying authorities are required to consult with business, and to produce a detailed prospectus, before introducing any BRS scheme;
- all properties with a rateable value below £50,000 are exempt from any supplement;³⁶
- levying authorities will be able to offer additional reliefs;
- where a supplement is to be introduced in an area containing one or more business improvement districts, levying authorities may offset BID levies against liability for the supplement;
- two or more authorities may raise a BRS jointly;
- there must be additionality i.e. revenues may not be used for expenditure that would have been incurred if no supplement had been levied.³⁷

4.3 Infrastructure supplements

New elected mayors of combined authorities will be able to raise business rates within their areas, up to a cap of 2p in the pound.³⁸ This power has featured in a number of the 'devolution deals' agreed between the Government and groups of local authorities between 2014 and 2016.

Powers to introduce this levy, known as an 'infrastructure supplement', can be found in part 3 of the *Local Government Finance Bill 2016-17*. The July 2016 consultation described the power as an 'infrastructure levy', and included a suggested definition of infrastructure: "roads and transport, flood defences, educational facilities, medical facilities, sporting / recreational facilities and open spaces".³⁹ Conversely, Clause 17 of the Bill would **prevent** the revenue from being spent on housing, social services, education, children's services, health services or planning.

The use of the power was to have been subject to the agreement of the Local Enterprise Partnership, intended to represent the interests of local businesses. However, this requirement is not in the Bill. Instead,

³⁴ HM Treasury/DCLG, [Business Rates Supplements: guidance for local authorities](#), January 2010,

³⁵ It may not be used to provide housing, social services, education services, services for children, or health services.

³⁶ See the *Business Rate Supplements (Rateable Value Condition) (England) Regulations 2009* (SI 2009/2542)

³⁷ Guidance on this is given in HM Treasury/DCLG, [Business Rate Supplements guidance: additionality and ballots](#), May 2009

³⁸ DCLG, [Self-sufficient local government: 100% business rate retention](#), July 2016, p.35

³⁹ DCLG, [Self-sufficient local government: 100% business rate retention](#), July 2016, p.37

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consultation with local businesses, and a detailed prospectus from the relevant authority, will be required before a supplement can be introduced.

The Bill would provide for infrastructure supplements to share many of the requirements of business rate supplements: a limit of 2p in the pound; a detailed prospectus and consultation with affected businesses in advance; and possible exemption for properties below a certain rateable value.

5. Revaluations

Non-domestic properties in England, Scotland and Wales are normally revalued every five years. The next revaluation in each country is due to come into effect on 1 April 2017 (see the Library briefing [Business rates: the 2017 revaluation](#)). The current 'rating list' is based on a revaluation which came into effect on 1 April 2010.

Revaluations are based on rental values at a specific date (the 'antecedent valuation date' or AVD) two years before the revaluation applies. Hence the 2010 revaluation is based on rental values at 1 April 2008; and the 2017 one is based on rental values at 1 April 2015.

Sections 29-30 of the [Growth and Infrastructure Act 2013](#) delayed the 2015 revaluation until 2017 in England. Both the Scottish and Welsh governments subsequently also chose to delay revaluation to 2017.⁴⁰ The following English and Welsh revaluations will take place in 2022 (i.e. the five-year cycle has been permanently moved). In Northern Ireland, a revaluation came into effect on 1 April 2015, the previous one having taken place in 2001.

The VOA is required to send out draft rating lists to billing authorities by September in the year preceding a revaluation (e.g. September 2016 for the 2017 revaluation). For 2017 a 'check your valuation' facility has been made available [on the VOA website](#). Ratepayers have been sent draft valuations and are asked to contact the VOA if they believe that there are factual errors or wish to discuss any queries arising. This is not a formal opportunity to appeal; that becomes available only when the new rating list comes into force.

A rise in rateable value at a revaluation does not lead to a rise in overall revenue from business rates. The multiplier must be adjusted to ensure that the overall yield from rates remains the same. To ensure overall revenue neutrality, the multiplier was reduced by several pence in the pound at the 2000 and 2005 revaluations, offsetting an overall rise in rateable value. In 2017-18, the standard multiplier is expected to fall from 49.4p to 47.9p, and the small business multiplier to fall from 48.4p to 46.6p.⁴¹ As revaluations are required to be revenue-neutral overall, a fall in rateable value may not necessarily translate into a fall in business rates liability for an individual property.

In 2017, England and Wales will operate transitional schemes to phase in substantial increases or decreases in a ratepayer's bill following a revaluation. Details are available in the Library briefing paper [Business rates: the 2017 revaluation](#).

⁴⁰ See "[Wales to defer business rate revaluation date](#)", 5 March 2013; Scottish Government, "[Swinney outlines local government settlement](#)", 27 November 2012. See also an initial report, [Supporting Business, Promoting Growth](#), September 2013

⁴¹ See DCLG, [Business Rates Information Letter 3/2016](#), p.3

6. Scotland, Wales and Northern Ireland

Business rates are for the most part a devolved policy matter, though the system works in very similar ways in England, Scotland and Wales.⁴² Valuation is the responsibility of the Valuation Office Agency for England and Wales; the Scottish Assessors in Scotland; and Northern Ireland Land and Property Services (NILPS) in Northern Ireland.⁴³

6.1 Northern Ireland

Northern Ireland's non-domestic rating system sits alongside a system of domestic rating. As the community charge and council tax were not introduced in Northern Ireland, domestic rates remain in place.

Non-domestic rates in Northern Ireland were last revalued in 2015, and previously in 2011. Both the Northern Ireland Executive and local authorities levy a rate, which are collected together by the local authorities.

Small business rate relief

Northern Ireland operates a system of small business rate relief:

- business properties with an NAV ('net annual value', equivalent to rateable value) of £2,000 or less will receive a reduction of 50 per cent relief;
- business properties with an NAV of more than £2,000 but not more than £5,000 will receive 25 per cent relief;
- business properties with an NAV of more than £5,000 but not more than £15,000 will receive a 20 per cent relief.

Northern Ireland operates a number of other exemptions and discounts, some of which have developed separately from those in Great Britain. These include the following:

- Properties used for charitable purposes attract 100% relief, compared to 80% in Great Britain. Northern Ireland's definition of charitable purposes can also extend to non-profit organisations and buildings occupied for community purposes;
- Sports and recreation relief, at 80%, is available to non-profit occupants, and 100% relief is available for community amateur sports clubs;
- Empty properties attract a discount of 50%, with exemption for those with an NAV below £2,000, and an exemption for the first three months of vacancy;
- 100% relief is available for rural post offices with an NAV of £9,000 or below, with some relief available above that level;
- A 50% reoccupation relief ('Back In Business rate support') is available on former retail premises.

⁴² Though see the discussion in the report of the Silk Commission, *Empowerment and Responsibility: Financial Powers to Strengthen Wales*, 2012, pp.56-58, on the link to the Barnett Formula in Wales.

⁴³ See [the Scottish Assessors' website](#).

A review of non-domestic rating was undertaken in late 2015 and early 2016. [Papers from the review](#) are available on the website of the Department of Finance. The Northern Ireland Executive published a press release in March 2016 which suggested that no major changes were likely to emerge from the Review, though the Minister, Mervyn Storey, did announced that he planned to instruct NILPS to prepare for three-yearly revaluations, with the next one to take place in 2019.⁴⁴

6.2 Wales

The Morgan Review

The Welsh Government instituted a review of business rates in Wales during 2012, led by Professor Brian Morgan.⁴⁵ Amongst other matters, the report recommended full devolution of business rates from the UK to Wales, and some form of retention of business rates by local authorities.

The Welsh Government's response included commitments to:

- consider mechanisms for encouraging local authorities to be focussed on growth;
- monitor the effectiveness of Tax Increment Financing across the UK;
- consider whether local communities could retain business rates from large renewable projects.⁴⁶

Business rates were fully devolved to Wales as of 1 April 2015. Revenue from business rates now remains in Wales, and is redistributed amongst Welsh local authorities by the National Assembly. Previously, rises and falls in Welsh rate revenue were compensated for via the Barnett Formula, so the Assembly's budget was not affected. The Assembly has had the power to set the multiplier since its establishment in 1999.⁴⁷

The Welsh cabinet secretary for local government, Mark Drakeford AM, has announced that business rates will be reviewed in the summer of 2017, with the intention to reform the tax for the 2018-19 financial year.

Empty property relief

Provisions concerning the rating of empty property in Wales have largely mirrored the English ones, including recent reliefs. New commercial properties completed between 1 October 2013 and 30 September 2016 will be entitled to 18 months' exemption from empty property rates, if they remain empty. Occupants of retail premises which have been

⁴⁴ Northern Ireland Department of Finance, [Review of the Non-Domestic Rating System](#), March 2016

⁴⁵ The review, and the Welsh Government's response, can be found [on the Welsh Government's website](#).

⁴⁶ Welsh Government, *Welsh Government Response to the Business Rates Review*, 2012, p. 2

⁴⁷ Previously Welsh business rate revenue formed part of the block grant provided under the Barnett formula, and there was no link between the amount of the grant and any rises and falls in business rate revenue in Wales. The decision to change this is set out in HM Treasury, [Empowerment and responsibility: devolving financial powers to Wales](#), 2013.

vacant for 12 months or more, and which have a rateable value of £45,000 or under, can claim 50% relief for 12 months: they must be reoccupied between 1 October 2013 and 31 March 2015. The new occupants need not be a retail business.

Small business rate relief

Until 31 March 2018, business premises with a rateable value up to £6,000 will attract 100% relief. Ratepayers with RVs of between £6,000 and £12,000 will receive relief on a tapered basis from 100% to 0%.⁴⁸

Relief is also available for post offices, child care premises, retail premises and credit unions.⁴⁹ Businesses not eligible for small business relief include those entitled to other types of mandatory relief, advertising rights (e.g. billboards), beach huts, communication stations, car parks, car spaces and sewage works. The scheme is financed by the Welsh Assembly Government. There is no requirement, unlike in England, for eligible businesses not to occupy any other hereditaments with a rateable value over £2,600.

At the 2017 revaluation, transitional relief will be available on properties qualifying for small business rate relief (see the Library briefing [Business rates: the 2017 revaluation](#)). This transitional scheme is quite different from the English one: its range is smaller and it is paid for centrally. Wales did not use a transitional relief scheme at the previous revaluation in 2010, nor does it operate a small business multiplier.

6.3 Scotland

Small Business Bonus Scheme

Scotland operates a 'Small Business Bonus Scheme', similar to small business rate relief. The 2017-18 thresholds are shown in the following table:

Combined rateable value of all business properties in Scotland	2017-18
Up to £15,000	100%
£15,001 to £18,000	25%
£18,001 to £35,000	25% on each individual property with a rateable value not exceeding £18,000

Businesses have to apply for the Small Business Bonus Scheme but do not need to reapply as long as their circumstances remain the same. Relief can be awarded for a maximum period of five years without a review being undertaken.⁵⁰

⁴⁸ See the [Non-Domestic Rating \(Small Business Relief\) \(Wales\) \(Amendment\) Order 2014](#) (SI 2014/372).

⁴⁹ See the [Non-Domestic Rating \(Small Business Relief\) \(Wales\) Order 2008](#) (SI 2008/2770).

⁵⁰ See Scottish Government, [Small Business Bonus Scheme \(SBBS\)](#)

For 2017-18, additional relief has been provided for hotels, pubs and restaurants, capping the amount by which their bills can rise at the 2017 revaluation to 12.5%.

Empty property relief

In Scotland, empty property has attracted relief of 10% since 1 April 2013.⁵¹ Scotland also applies a 50% relief where a retail property with a rateable value of under £65,000 is reoccupied after being empty for at least 12 months. Reoccupation must have begun after 1 April 2014. As in England and Wales, new commercial properties are entitled to 100% relief for 18 months if they are unoccupied and were completed after 1 April 2013.

The Scottish Government has brought in a scheme to exempt offices and shops, including newly-built office and shop space, from business rates if their rateable value is under £45,000. The Scottish exemption will be available for a total of 15 months between 2013-14 and 2017-18.⁵²

⁵¹ See the *Non-Domestic Rating (Unoccupied Property) (Scotland) Amendment Regulations 2013*. Previously, empty properties attracted 50% relief.

⁵² See the *Non-Domestic Rating (Unoccupied Property) (Scotland) Amendment Regulations 2013* (SI 2013/37).

7. Alternative calculations of rateable value

Though rateable value is usually based on an estimate of the annual rental value of a property, a number of alternative methods of calculating rateable value are in use. These are used for properties for which it is difficult or impossible to determine a meaningful annual rental value. A useful resource is the Valuation Office Agency's manual, which is a guide for valuers when calculating rateable value.⁵³ The main examples are:

- **The 'receipts and expenditure' basis.** This is most commonly used for pubs and hotels (see below), where it is hard to obtain a meaningful annual rental figure. This method aggregates the property's turnover into a series of categories and multiplies each of them by a percentage (e.g. 30% of drinks receipts, 40% of food receipts). These are then added together to produce the rateable value.
- **The contractor's basis.** This is most commonly used for old or unique buildings. The cost of reconstructing the building from scratch is estimated. A 'decapitalisation rate' is applied to this figure: this represents the rate of interest that funds would attract if they were not used for a rebuild.⁵⁴

In other instances, such as telecommunications cables, standard rating scales, often agreed with industry representatives, are applied.

The British Retail Consortium made a number of suggestions for alternative methods of valuation in its 2014 paper [Business Rates: the road to reform](#). These included basing rateable values on energy usage, applying a discount per employee, applying a discount according to corporation tax payments, and applying a standard rate per square foot.

7.1 Receipts and expenditure valuation

Public houses' rateable value is normally calculated on the basis of "fair maintainable trade". The use of this method instead of the standard method dates back to the late 1800s. The current methods of valuation (agreed with the industry) are set out in the 2010 publication [Valuation of Public Houses: Approved Guide](#).

The justification for using the method relates to the difficulty of obtaining a meaningful figure for the open market rent of a pub. Many public houses are owned by breweries and let to the landlords under terms which require the landlord only to buy from that brewery (a 'tied' pub). Additionally, the nature of the public house as a rentable retail unit is fundamentally changed by the existence of a licence to sell intoxicating liquor. Askham and Mackmin describe the situation as follows:

⁵³ See Valuation Office Agency, [Rating Manual 4](#), 2012

⁵⁴ This is prescribed in secondary legislation. See the [Non-Domestic Rating \(Miscellaneous Provisions\) \(Amendment\) \(England\) Regulations 2004](#) (SI 2004/1494); see also [Business rates: the 2017 revaluation](#), section 1.3

Generally speaking, new licences are not easy to obtain and in most areas the assumption is that the status quo will continue. To an extent, therefore, licensees are each enjoying what amounts to a share in a statutory local monopoly... there is a limited supply of licensed premises and there is every likelihood that the supply will not increase. This will have an effect on value.⁵⁵

Fair maintainable trade (FMT) must be calculated with reference to the “antecedent value date” (AVD), i.e. the date on which valuations on the current rating list are based. The valuer must calculate the turnover that would be expected on that date, assuming that the business was run competently by a ‘hypothetical tenant’. This will inevitably have some relationship to, but need not be dictated by, the actual trade figures in recent years.⁵⁶

The valuer will produce separate turnover figures for alcoholic drink, food, accommodation, gaming machines and other sources of income. Each of these categories is then attributed a percentage, following the guidance provided by the VOA.⁵⁷ The percentage selected is principally based on geographical location and turnover. The figures for receipts are multiplied by the percentage to produce a rateable value for each category, and these values are added together to produce a total rateable value.

The valuer is required to ensure that the final rateable figure is not substantially out of line with rateable values for similar properties nearby (the “stand back and look stage”), as the intention of the FMT method is to produce an approximation of a free market rent:

Having calculated the initial valuation it may be necessary to stand back and look in order to consider whether or not the resultant figure appears reasonable in comparison with the assessments of similar styles of property and if it fits into the broad range and pattern of assessments in similar localities.⁵⁸

The rateable value is then combined with the multiplier, in the normal way, to calculate the business rates liability.

⁵⁵ Phil Askham and David Mackmin, *Rating Law: The Uniform Business Rate*, Sweet & Maxwell, 1995, p. 151-152

⁵⁶ Valuation Office Agency, *Rating Lists 2010 – Valuation of Public Houses: Approved Guide*, p. 4

⁵⁷ *Ibid.*, pp. 7-15

⁵⁸ *Ibid.*, p. 17

8. Frequently asked questions

8.1 How do I challenge my rateable value?

Appeals against the rateable value of a property consist of a 'proposal' to alter the valuation list. This must be made to the VOA (or the Assessors in Scotland, or NILPS in Northern Ireland). Details of how to do this in England and Wales are [available on the VOA website](#). If the ratepayer is dissatisfied with the VOA's decision, s/he can appeal to the Valuation Tribunal, and after that to the High Court.

Similar properties nearby having a much lower rateable value can be, but are not necessarily, a justification for a reduction in the ratepayer's rateable value. There may be other reasons for differences in rateable value.

It is possible to agree a new rateable value with the VOA in advance of a formal appeal. Any new rateable value can be backdated to a date from which the VOA agree that it should have applied.⁶⁵

In recent years it has been reported that appeals can take up to a year to be processed by the VOA. **The existing rates must be paid for the duration of any appeal:** they will be reimbursed afterwards if the appeal is successful and the rateable value is lowered. Billing authorities have a **discretionary** power to defer payment within the current financial year.

Businesses taking forward a formal appeal against their rateable value may consider retaining the services of a professional valuer.

In England, the Government is proposing to introduce a new system for challenging rateable values and rate bills called *Check, challenge, appeal*. This will come into effect for the 2017-18 financial year. Further details can be found in section 5.1 of the Library briefing [Reviewing and reforming business rates](#).

8.2 How do I challenge my bill?

The billing authority should be approached in order to seek a reduction in **liability** for rates – as opposed to seeking a change in rateable value. If the ratepayer is dissatisfied with the billing authority's decision, s/he can appeal to the Valuation Tribunal, and after that to the High Court.

8.3 Limits on backdating of business rate refunds following successful appeal

If an appeal to the VOA or Valuation Tribunal results in the rateable value being reduced, a ratepayer may be entitled to a refund of rates, for the time from which the new lower value should have applied. Normally, refunds can be backdated, at a maximum, to the date of the most recent revaluation – currently 1 April 2010.

The Government passed regulations in March 2015 to adjust this situation.⁵⁹ If a ratepayer makes a formal proposal after 31 March 2015, it will only be possible to backdate any resulting changes to 1 April 2015. This will apply through to the beginning of the next valuation list on 1 April 2017. Refunds will still be subject to backdating to 1 April 2010 at the earliest on appeals which were **commenced** before 1 April 2015.

The regulations also provide that, if the VOA makes a formal proposal by 31 March 2016, it will still be possible to backdate any resulting changes to 1 April 2010. In other words, changes to the valuation list resulting from VOA proposals made during 2015-16 may be subject to backdating back to 2010, whereas ratepayers' proposals made during 2015-16 can only be backdated to 1 April 2015. This change was announced in the Autumn Statement 2014.⁶⁰

8.4 When do I pay business rates?

From 2014-15, businesses have been entitled to choose to pay business rates bills in twelve monthly instalments instead of the standard ten months. Previously, a scheme of ten or fewer instalments had to be used unless the ratepayer and the billing authority agreed to an alternative.⁶¹

8.5 Why don't online businesses pay rates?

There have been complaints in recent years that 'online businesses' are able to undercut traditional businesses, particularly in the retail sector, as they do not maintain a high-street presence and thus are not liable for business rates. This has been linked to longer-lasting concerns about the 'decline of the high street', and to calls for the reform of business rates. The issue is discussed in the Government's 2015-16 [review of business rates](#).

Business rates are only payable on the occupation of property. However, most retailers or online businesses selling products are likely to have some form of storage or dedicated building, such as a warehouse. Assuming they are used solely for business purposes, such properties will attract business rates. It may be that the rateable value of such properties is lower than a similar-sized property in a local high street. This will depend on the decisions of the VOA, based on local rent levels.

8.6 Working from home

Individuals who work or run a business from home will not necessarily be liable for business rates, unless there is a room or area that is used only for the business. For instance, a workshop or salon which was part of the domestic property, but is now used solely for the business, is

⁵⁹ See the *Non-Domestic Rating (Alteration of Lists and Appeals) (England) (Amendment) Regulations 2015* (SI 2015/424).

⁶⁰ HM Treasury, [Autumn Statement 2014](#), p. 79

⁶¹ See the *Non-Domestic Rating (Collection and Enforcement) (Amendment) (England) Regulations 2014*; these updated the *Non-Domestic Rating (Collection and Enforcement) (Local Lists) Regulations 1989* (SI 1989/1058), paragraph 7.

likely to attract business rates. Individuals who work at home and use a room or area which is also used for domestic purposes are unlikely to be caught by this: but there is case law in this area and no definitive guidelines can be given.

8.7 State Aid

EU regulations prevent any company from receiving more than €200,000 of state aid in a three-year period. Any amount less than this is known as 'de minimis' aid. Companies which receive business rate relief in respect of large numbers of properties may be caught by this requirement, and may thus not be eligible for all of the relief available.

8.8 The agricultural exemption and rates on rarely-used land

Agricultural land has been exempt from business rates since 1929. A definition of agricultural land, for the purposes of exemption, can be found in the [Local Government Finance Act 1988](#).⁶²

The critical factor in defining whether land is exempt is its use. Farm buildings used for storage, farm diversification or other lines of business, and related businesses such as garden centres, are likely to attract business rates. There is case law in this area.

Agricultural land may attract a rateable value if events are held on the land, even for a few days per year. This may affect, for instance, fields used for car boot sales or festivals (see the Library briefing paper [Reviewing and reforming business rates](#)). There is substantial case law covering what can and cannot be rated in this regard. It is for the VOA to decide whether to assign a rateable value to a property and, separately, for the local authority to decide whether it wishes to award a discount on the rate bill to the liable organisation or individual.

8.9 How can my council introduce a supermarket levy?

There have been proposals in recent years, most notably via [a campaign by the group LocalWorks](#), for a 'supermarket levy' – i.e. higher business rates on larger properties or companies via an additional multiplier. This has been done in Scotland and Northern Ireland, but there is no power to set an additional multiplier in the England and Wales business rates legislation.

From 2012 to 2015, the Scottish Parliament imposed a 'public health supplement'. This was an additional multiplier on properties with a rateable value of over £300,000 **and** which sold both alcohol and tobacco (9.3p in 2012-13, 13p in 2013-15). The additional rate applied to the amount by which their rateable value exceeds £300,000. Therefore, a property with a rateable value of £400,000 would pay an additional £13,000.

⁶² *Local Government Finance Act 1988*, Schedule 5 paragraph 2

Additionally, the Scottish Parliament levies a 'large business multiplier' - 51.0p in the pound in 2016-17 - for properties with a rateable value of over £35,000.

From 2012 to 2015, the Northern Ireland Assembly applied a 'large retail levy' to all retail properties with a rateable value of £500,000 or more, payable on the **whole** rateable value, not just the amount by which it exceeds £500,000. The rate of the levy was 8.98p in 2014-15.

8.10 Business rates and fracking

On 13 January 2014, the then Prime Minister, David Cameron, announced that local authorities would be able to keep the entire business rate revenues from sites used for hydraulic fracturing (fracking). This would be achieved by excluding these sites from the mechanics of the Business Rate Retention Scheme. A fuller explanation of how this would work was set out in a response to consultation document published in January 2015.⁶³ The 'additional' 50% of revenue will be retained by upper-tier authorities, due to their role in mineral planning. District councils will continue to receive 40% of relevant revenue under the terms of the existing retention scheme.

The regulations came into force on 9 March 2015.⁶⁴ A similar exclusion is already in place for 'renewable energy projects'.⁶⁵

⁶³ DCLG, [Business Rates Retention and Shale Oil and Gas: Summary of Responses and the Government Response](#), January 2015

⁶⁴ See the *Non-Domestic Rating (Shale Oil and Gas and Miscellaneous Amendments) Regulations 2015* (SI 2015/628)

⁶⁵ See the *Non-Domestic Rating (Renewable Energy Projects) Regulations 2013* (SI 2013/108).

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