Chapter 6: Land and property taxation

6.41 In the chapters that follow I consider a number of different types of tax that could contribute to local government revenues. Two of the most important local taxes (council tax and business rates) are both forms of land and property taxation, and are examined more fully in Chapters 7 and 8. In order to set that discussion in context it is useful to summarise the benefits and drawbacks of these types of tax, based on the very wide literature on these issues.

Taxation of economic rent

6.42 Most economists would agree that there is a strong case for levying taxes on land. Land is in fairly fixed supply, and much of its value will therefore be what economists call 'economic rent'[1], which can be taxed without altering the incentives to use the land. The fact that much of the value of land is the result not of the actions of the owner, but the activity and investment of the wider community — for example, by providing transport connections, desirable schools or accessible markets — makes the case for such taxation even stronger. Taxing only the value of the land, not the use to which it is put, or the buildings and other improvements constructed on it, could also ensure that there is no distortion created by the tax system between the types of activity that might be undertaken on the land.

6.43 Land value taxes have been proposed on a number of occasions in the past, perhaps most notably in the Budget of 1909, because of these advantages. A number of groups, from the Land Value Taxation Campaign to the British Retail Consortium, supported the idea of a land value tax in their submissions to the Inquiry. For example, the BRC argued that:

Land Value Tax (LVT,) has a number of advantages. These include not distorting behaviour in the same way as taxes on income and profits do, LVT's potential effectiveness in incentivising the efficient use of land (as all land would incur a charge even when it was not being used for productive activity.) and taxing land values could also enable local governments to profit from some of the increase in value as a result of a prosperous local economy

Taxing property to widen the tax base

6.44 There are also some arguments in favour of taxing the property built on the land, as well to widen the as its basic value as land. In general, taxes should be applied to as broad a base as possible in order to reduce the tax rate needed, anti thus the potential distortions created. Taxing the value of improvements as well as land values can help to expand the size of the property tax base, and a number of land value taxes used around the world actually levy a tax on improvements for this reason[2]. On the negative side, however, the taxation of the value of property as well as the land value could distort activity by discouraging investment in development and improvements.

[1] Economic rent is a complex economic concept and definitions vary. Broadly speaking it means the difference between the return made by a factor of production (i.e. land, labour or capital) and the return necessary to keep the factor in its current occupation.

[2] NERA Economic Consulting, Options for Reforming Local Government Funding, Lyons Inquiry, 2005.

Economic stabilisation

6.45 Well designed taxes on the use of land and property can in theory contribute to the stability of the property market, and thus to the stability of the economy overall. With a flat rate tax on up-to-date property values, tax bills would tend to increase during periods of growth, and fall during downturns. In an upturn, the cost of consuming a particular amount of property would therefore tend to increase, reducing demand for it and motivating property owners to make full use of their property (for example by renting out a room). In a downturn, the opposite would occur, helping to soften the impact, and these effects should reduce the magnitude of changes in property prices[3].

Reducing other taxes

6.46 Raising tax revenues through land and property taxes has the additional advantage that it could allow for reduced taxes on profits and incomes, thus reducing the disincentive to effort and success that such taxes can create.

Administrative savings

6.47 There are also a number of advantages to land and property taxes from an administrative advantages perspective, related to the fact that land and property are in the main immobile, and relatively straightforward to identify for taxation purposes. As a result, they are difficult to avoid and cost- effective to collect because those liable to tax cannot move their property elsewhere to avoid taxation, or hide their property to evade taxation. Indeed, some tax experts argue that the ability of large multinational companies to reduce their liability to taxation on their profits by moving profits between different countries will make property taxes increasingly important in the future because they are less easy to avoid.

6.48 A further advantage cited is that the yield from property taxes is predictable and stable, due to the fact that the tax base can be measured reasonably easily and is unlikely to change rapidly from year to year. This is particularly true of council tax in its current form; other property taxes, particularly if they reflect changes in actual property values, might fluctuate more.

Advantages as local taxes

6.49 Land and property taxes are used around the world as local taxes, and there are a number local taxes of reasons for this. The relative simplicity of assessment and collection and the difficulty of evasion, mentioned above, are all important. In addition, taxing property locally has the advantage that it can provide a strong connection between the tax people pay and their residence in an area. Taxes on property value reflect residents' (and owners') financial stake in a community and its prosperity, and their interest in local services and investment, which themselves impact on the desirability of' property in a given area.

6.50 There can be tensions between the different possible purposes of land and property taxes. For example, the regular revaluations needed if the tax is to remain up-to-date may make bills and revenues less predictable for taxpayers and tax authorities, and create administrative costs, and the variable rates of tax needed to fund local authorities' different spending choices could be in conflict with the consistent rate of tax desirable to perform a market stabilisation function. These tensions need to be borne in mind when considering reforms.

[3] Muellbauer, J "Property, Land and Taxation after the Barker Review" 2004.

Chapter 7: Household taxation and local charges

Point value property tax

7.65 Finally, I said in my Interim report in 2005 that I was interested in looking at the experience of other parts of the UK and international examples of different local taxes[4]. In that context I have considered what the impact might be of eventually replacing council tax with a so-called ‘point value tax’, under which bills would be based on a set percentage of property value each year.

766 Property taxes in many other jurisdictions are directly related to property value in this way. For example, Northern Ireland’s domestic rates are to be replaced by a point value tax this year, with bills based on capital value as determined by the Valuation and Lands Agency. The Northern Ireland context is of course very different to that in England, and decisions about local taxes there are entirely separate from decisions about reform in England. It is, however, an interesting example o a property tax very different to council tax. Many US states also operate ‘real’ property’ taxes, based on annually updated capital values.

767 Analysis by the Inquiry shows that based on 2005 values (the most recent detailed data available to the Inquiry), a point value tax would need to be levied at approximately 0.64 per cent of capital value in order to raise the same amount as council tax (before CTB). More households would gain than would lose under this reform option, with almost 60 per cent of households paying at least £1 per week less than now. Around 40 per cent would pay at least £3 per week (or £156 per year) less than now. However more than a quarter of all households would pay at least £1 per week more than now, and around 18 per cent would pay more than £3 per week more than now.

7.68 A point value tax has some theoretical attractions in the longer term. As Sir Peter Burt’s Committee noted last year, a tax of this kind would have the potential to act as a more effective stabiliser of the property market than council tax[5] If properties were regularly revalued, it could even be a source of buoyant revenue for local government, as yield from a particular multiplier would rise (or fall) with house prices, and embed incentives for local authorities to invest in the desirability of their area for residents, in terms of the service quality and wider well-being which can be reflected in property prices.

7.69 Applying a fixed multiplier to property value would be the logical extension of the idea that fair property taxes should not tax expensive homes more lightly than cheaper ones. It would also result in significantly greater progressiveness in relation to income, though a point value property tax would remain regressive overall before benefits are taken into account. Compared with the current system, this would significantly reduce the costs of council tax benefit. Analysis by the Inquiry suggests that a point value tax might reduce the average burden of tax as a proportion of income for the poorest by around 15 per cent, and so could also reduce total CTB costs by up to £1 billion (assuming full take up).

---

[4] Lyons Inquiry into Local Government, Consultation Paper and Interim Report, 2005.
[5] Local Government Finance Review Committee, Scotland, “A Fairer Way”, 2006.

Chapter 8: Business Taxation

Improving the efficiency and fairness of business rates

8.78 There are a number of different types of land and property, which receive a partial relief, or are completely exempted, from business rates, for a variety of historical and policy reasons. The main exemptions and reliefs are set out in table 8.4, below, together with their cost in terms of revenue given tip. Exempt land and properties are not valued for business rates, and the data on reliefs is therefore far better than the data on exemptions.

Table 8.4: Costs of business rate reliefs and exemptions

	2006-07 cost/estimated cost (£m)
Reliefs	
Empty property	1,333.1
Charity (mandatory relief)	724.3
Partly occupied property relief	40.8
Community Amateur Sports Clubs	7.1
Rural shops (mandatory relief)	5.9
Former agricultural premises	0.9
Transitional relief	Revenue neutral over revaluation cycle
Small Business Rate Relief	Revenue neutral
Exemptions	
Agricultural land arid buildings	300 - 450
Derelict/brownfield land	Uncertain

Other smaller uncosted exemptions include places of religious worship, fish farms, sewers and public parks

8.79 While there are reasons behind the existence of these reliefs and exemptions, it is sensible to cast a critical eye over them in order to ensure that they remain fit for purpose. The existence of reliefs and exemptions can create distortions, or weaken incentives to take positive actions. In addition, they represent a cost in terms of revenue foregone - money which could otherwise be used to cut the overall rate of tax or fund additional spending.

8.80 In my Interim Report and Consultation Document in December 2005 I noted my interest in considering areas in which business rates falls short of functioning as a full land and property tax, arid I have therefore specifically considered the empty property relief and the exemption of vacant land and derelict property. These are subjects on which, in the intervening period, the Barker Review of Land Use Planning has also made recommendations.

Empty property

8.81 Empty property relief provides a substantial relief from taxation for all empty property, and full relief for some types. Most property receives 100 per cent relief for the first three months, and 50 per cent relief thereafter, and warehouses or factories receive 100 per cent relief at all times. At an annual cost in terms of revenue foregone of £1.3 billion it is the single most significant relief in the business rates system. Some stakeholders called for the relief to be reduced, or removed entirely.

Empty properties should pay full business rates as an incentive to encourage local business growth, with exceptions allowable for any property owner who can prove that they are doing all they can to fill the property and are delayed by means beyond their control. (Federation of Small Businesses)

Leeds supports the case for the reform of empty property relief and agrees that reform could be used to encourage early redevelopment and re-use particularly in urban areas. (Leeds City Council)

8.82 There are some arguments in favour of the existence of empty property relief. It can be argued that a general relief shares the risks of a property not being able to earn a return between government and the owner[6]. A relief for property that is only empty for a short time supports an active property market, as it means that owners do not pay tax while tenants move. Relieving empty property of taxation also reduces the incentive for owners to make their properties derelict in order to avoid taxation.

8.83 In the main, the prospect of commercial returns from the property should ensure full use of properties. However, the risk of not earning a return does not just result from external factors, but is also determined by the actions of the owner. For example, they might not maintain the property properly and let it fall into disrepair, be uninformed about better uses for it, or might keep it empty for speculative reasons. Empty properties can also impose additional costs on communities by rendering areas less safe and attractive, and still require some public services such as policing and fire protection.

8.84 Demand for land for development is growing as a result of economic change and household growth, and it is clear that, more than ever, need to ensure that all previously developed land is used most effectively[7] Analysis shows that vacant property is found in areas of high demand as well as in areas of low demand and former industrial areas[8] Finding ways to raise the opportunity cost of holding unused land and property in areas of high demand at such a time would be desirable. Reforming the empty property relief would help to provide this, and thus assist local authorities in their place-shaping role.

8.85 The existence of different levels of relief for different types of property distorts the market. It creates a sectoral imbalance within the system, providing a greater level of benefit to one sector than to others, and it does not provide any pressure from within the tax system to encourage the re-use of such land or the property for alternative uses, including redevelopment of the site and conversion to another use. This imbalance

---

[6] Atkinson, A B and Stiglitz, J E "Lectures in Public Economics" 1980.

[7] Doing so helps to protect open spaces and the countryside, promotes urban regeneration, and supports the viability of services like public transport, which rely on dense populations.

[8] Office of the Deputy Prime Minister, Commercial and Industrial Floorspace and Rateable Value Statistics 2005

should be rectified by balancing the relief currently provided to factories and warehouses with that available for office and retail premises.

8.86 Changes to the empty property relief would have a number of implications for businesses. The increased taxation would encourage the owners of empty property to find ways to make better use of it, either through using it themselves, attracting new tenants (perhaps by reducing rents) or redeveloping the site for a new use. The effect across the economy would probably be a fall in future rents that would benefit property occupiers. This might be accompanied by a fall in capital values, which would have no impact on current owner-occupiers (assuming that they wanted to continue using the same or more property in the future) and a positive benefit for future purchasers.

8.87 No national breakdown exists of how much of the £1.3 billion of empty property relief is accounted for by the different elements of the relief However, in a small sample of local authorities who were able to provide the Inquiry with data, 80 per cent of the relief was accounted for by the full relief for factories and warehouses and the partial relief on longer term empty property[9]. Existing data on the value of empty property in all local authority areas, and additional detailed analysis of the speed at which property falls empty and the rime it takes to be re-let or sold (currently in the process of being compiled by Communities and Local Government) paints a similar picture[10]. Together these sources suggest that the reforms I am proposing could raise potentially significant additional resources, alongside providing improved incentives for the efficient use of land.

8.88 Rating organisations who commented on the Barker Review of Land Use Planning's recommendations on this issue noted that measures had been introduced in the 1970s to provide better incentives for the re-use of empty property and that these had not been successful. They pointed out that when faced with penal rates of tax, owners often found it easier to make the property derelict rather than to bring it back into use. This is an instructive lesson. Any proposals for reform should seek to avoid this problem through limiting taxation to 100 per cent of liability, rather than imposing penal rates of tax. However, it remains a concern that some owners may find dereliction an attractive route to escape taxation. A tax on previously developed land, considered next provides a possible solution to this problem.

Recommendation 8.4

The Government should reform and reduce the empty property relief by:

Retaining the existing 100 per cent relief for short-term empty propery (up to three months)

Reducing the rate of relief thereafter; and

Providing factories and warehouses with the same level of relief as other properties.

[9] Based on data for 2005-06, kindly provided by Birmingham, Stockton, Oldham, Bury, Manchester and Rochdale

[10] Office of the Deputy Prime Minister, Commercial and Industrial Floorspace and Rateable Value Statistics 2005

Derelict property and brownfield land

8.89 Land that is not 'capable of beneficial occupation' is not subject to taxation through business rates. However, the arguments set our above about the possible role of the tax system in ensuring an efficient use of land also apply to derelict property and previously developed land, and could thus support the place-shaping role of local authorities. The potential for a tax on such land to close a possible loophole in the system is also a reason for considering it seriously,

8.90 However, introducing such a tax would be a much more complex matter than reforming the empty property relief, for a number of reasons. Defining, identifying and valuing the land would he a significant task, as the land is not currently identified or taxed for the purposes of business rates. Valuation would be a particularly challenging task, given that this land does not, almost by definition, have a rental value. An approach which imputed a rent from the capital value of the land might be necessary, which would be a significant change from the normal principles of business rates, which is a tax on occupation and the consumption of property rather than its ownership.

8.91 It is difficult to calculate what the revenue from this tax would be. Although an estimated 36,500 hectares of previously developed land in England are vacant or derelict, most of this land will be worth comparatively little, and therefore the revenues from a tax on it is be unlikely to be very substantial[11]. However, the purpose of the tax would not primarily be revenue generation, but rather to provide proper incentives for re-use and to prevent some owners exploiting the loophole in the system that would otherwise exist.

8.92 These proposals are not yet fully developed, and further work will be needed to test whether this is a feasible proposition and how implementation and administration could be undertaken. The Government will need to consider a number of issues, including:

- whether it is economic to incur the costs of valuing and administering a new tax on this land given the potential yield;
- avoiding development pressure on green spaces and other public amenities. There may be a case for an exemption for such land;
- how to treat land that is uneconomic to develop (though such land should have a very low or zero value arid thus little or no tax liability in any case);
- how to avoid reducing rather than increasing development because of any interaction between a new levy on previously developed land and the Planning-gain Supplement, or other aspects of the taxation system; and
- whether there are any legal circumstances or cases of reserved strategic capacity where incentives should not apply, as noted by Kate Barker.

Recommendation 8.5
The Government should develop proposals for the taxation of derelict property and brownfield sites and consult on those with stakeholders

[11] Office of the Deputy Prime Minister, Commercial and Industrial Floorspace and Rateable Value Statistics 2005

8.93 There are myriad other reliefs and exemptions in the business rates system. The most substantial in terms of revenue foregone are the relief for charities, and the exemption for agricultural land and buildings. The transitional relief available to cushion the impact of revaluation and the small business rate relief are also important, though they are intended to be revenue neutral.

Agricultural land and buildings

8.94 Agricultural land and buildings have been completely exempt from business rates since 1929, although they had enjoyed some level of relief since the late 19th century because of economic difficulties in the sector. This situation no longer applies to the same extent, and there would seem in principle to he little reason to maintain the special treatment, which gives agriculture a tax benefit that no other business sector enjoys. Farms and other agricultural businesses are generally liable for a range of other taxes in the same way as other businesses (although there are some specific differences, for example in inheritance tax). That said, agriculture does have some unique characteristics, including the role of farmers in land stewardship as well as agricultural production, and the sector has been the subject of significant ongoing reforms of agricultural subsidies and support.

8.95 My analysis suggests that the exemption is worth in the order of £450 million a year in revenue foregone. This is not an exact figure as agricultural land and buildings are not currently valued for business rates by the Valuation Office Agency (VOA). In addition, we would expect agricultural rental values to fall as a result of the re-introduction of rates. If rental values fell so as to completely offset the impact of taxation, this would reduce the expected income from rates on agricultural land and buildings to around £300 million. The impact of taxation would also be to reduce the capital value of agricultural land.

8.96 There are precedents for large-scale changes in the rating system in the return of industrial property to full rating in England and Wales in 1961, having enjoyed a 75 per cent exemption from 1929, and more recently in the re-rating of industry in Northern Ireland. However, re-introducing rates on agriculture would undoubtedly be a significant step, and a tax liability of £300 million - £450 million a year would represent a substantial proportion of the income from farming (which totalled £1.9 billion in 2005 in England and Wales, as measured by the Department for the Environment, Food and Rural Affairs' Total Income from Farming assessment). Adjustment by farmers, and the agricultural sector as a whole, to a range of powerful long run economic pressures is a normal, ongoing process, but it is also the case that UK farmers are still responding to the implications of 'decoupling', and that significant further Common Agricultural Policy reform is likely over the next few years[12]. Ultimately, the incidence of business rates falls on the owners of business assets, but policy on reforming exemptions to business rates needs to be sensitive to the broader economic context of the affected sectors, and in respect of farming (particularly tenant farmers) it needs to be sensitive to the realities of the agricultural adjustment process. If the Government was to re-introduce rates there would therefore certainly need to be a period of transition to allow the sector to adjust, and there might well be a case for some continuing level of relief for example to avoid a situation where otherwise viable and environmentally beneficial agricultural business activity is curtailed. In particular, I believe that marginal agricultural land should continue

[12] See for example the Government's "A Vision for the common Agriculture Policy", 2005

to receive full relief from business rates. Other land, including that used for 'lifestyle', rather than agricultural purposes, would legitimately face taxation.

Charities

8.97 The relief for charities is the second most significant relief after the empty property relief The 80 per cent mandatory relief was worth £724 million in 2006-07, and local authorities also provided further discretionary relief. Charities are generally not liable for tax, such as income tax, corporation tax and capital gains tax, and this relief arguably extends that approach to the business rates system. However, as we have seen earlier in this chapter, in general the evidence suggests that a fall in rates will lead to an increase in rents, and we would expect at least sonic proportion of the charity relief to accrue to the owners of the properties, in the form of higher rents. Some business organisations, such as the Forum of Private Business, feel that the existence of this relief helps some charities to unfairly undercut other high street businesses.

New reliefs

8.98 Some of those who made submissions to my Inquiry called for new reliefs. The Social Market Foundation have suggested new reliefs to support the environmental agenda, for example by reducing the rates payable on energy efficient buildings[13].

8.99 Such incentives might have a part to play in this country's approach to greater environmental sustainability and lower energy use. Following the publication of the Stern Review on the economics of climate change, it is clear that as a society we will have to take new steps to deal with the impact of' climate change.

8.100 I do not recommend business rate based measures at this stage. It is beyond the remit of this Inquiry to consider all of the possible measures for addressing climate change, and while there is the potential to use business rates as part of an overall strategy, it is unclear whether a business rate relief would be the most effective arid value for money approach. An energy efficient property will have reduced costs for the occupier, which means that there is a business case for investment in energy efficiency by owners and occupiers without public subsidy. Such a property would also therefore command a higher rent than a comparable energy inefficient property, transferring the benefit of the relief from the occupier to the owner. The concern of many of those involved in the raring system, that new relief would increase the complexity of an already complex system, also needs to be given some weight.

8.101 In the light of this, I recommend that the Government should undertake its own review of the reliefs and exemptions in the system. That review should have a number of objectives:

- to consider the current reliefs and exemptions and to judge whether they remain justified in terms of their cost, their contribution to policy objectives and the potential distortions they create to a level playing field for all property users;
- in particular, to review the case for the continuing existence of the agricultural exemption, and to consider the costs and benefits of undertaking a valuation of agricultural land at the 2010 revaluation in order to accurately assess the value of the exemption; and
- where practicable, to remove or merge existing reliefs and exemptions.

[13] Blackwell, L and Gough, B "Turning business rates green: How to make the Uniform Business Rate Fit for the future" Social Market Foundation, 2006.

8.102 When considering any new reliefs as part of this review, the Government should consider the following principles:

- the benefits of the introduction of the relief should exceed the costs, including the costs to the Government, and to businesses, of administering a more complex system, the distortions to the property market that reliefs can create, and the fact that providing one type of property with relief might necessitate a higher tax rate on other property to maintain the overall yield; and
- since the value of any relief is likely to accrue in substantial part to the owners rather than the occupiers of the property, reliefs should only be introduced where this is a desirable end.

Recommendation 8.6

The Government should conduct a review of exemptions and reliefs to consider the scope for removing inappropriate subsidies and distortions, and to simplify the system.

Local discretion

8.103 In reforming reliefs and exemptions, there will be a choice about whether any changes should be made across the country or whether there should he an element of local discretion. Local discretion, particularly on the empty property relief would give local authorities new tools with which to pursue local regeneration and development, and enable them to take an approach sensitive to local economic and property marker conditions. On the other hand, a national approach would have the advantage of ensuring a consistent and predictable approach across the country for property owners and developers, and it would also provide additional revenue at national level.

Use of additional revenues

8.104 Changes to reliefs and exemptions will have an impact on total yield. This will obviously be subject to the outcome of the review. However, if the net result of any changes was an overall increase in yield then this could be used to reduce business rates for all businesses. This could assist with the introduction of a discretionary supplementary power by reducing the impact of national business rates on businesses, and on the Government's other tax receipts. Final decisions on this will be for ministers to make, iii the light of time wider review of reliefs, the overall fiscal position, and other calls on available revenues.

Implementation

8.105 Many of the changes I have recommended in this chapter will require primary legislation to implement them. The timescale on which they can be introduced will therefore depend on when the Government can bring forward a bill and when Parliamentary time can be found. The Government would also need to undertake further consultation with stakeholders and experts on detailed proposals and technical issues.

8.106 New powers for local authorities to levy a local supplement on business rates should be introduced as soon as possible after primary legislation, allowing sufficient time for local billing authorities and their suppliers to deal with any necessary amendments to software and information systems.

8.107 In order to remove exemptions a large number of properties which do not fall within the system at present must be valued, and it would be sensible to integrate this valuation process with the VOA's cycle of valuation work. Depending on the size and complexity of the task involved, it might be possible to remove exemptions from the beginning of the 2010 list in April 2010.

Options for future governments

8,108 The key options for the future of business rates centre on changes to the process and frequency of revaluation, and to the way in which the tax rate is set. A number of these options were considered by the Governments review of revaluation in 1999-2000. The Government will also need to keep the overall level of business rates under review, as part of its general approach to considering the appropriate level and method of taxation on businesses and on other sectors.

Revaluation

8.109 From a theoretical point of view, there is much to be said for increasing the frequency of revaluations. More frequent revaluation would mean each property paid a bill more related to its actual value (relative to other properties) - whereas in the present system property values can be almost seven years out of date (revaluations are implemented every five years, but published lists use assessments of rateable value from two years before the implementation date). This would make the tax more responsive to the actual state of the property market and could have economic advantages by reducing the burden of taxation on businesses in economic downturns. Since the changes in rateable value, and hence in tax bills, would vary less if updated each year, rather than every five years, it might also be possible to scale hack or remove transitional relief which would remove some complexity from the system.

8.110 Increasing the frequency of revaluations would have some drawbacks (including possible increases in administration costs). By updating values more frequently, it would remove some of the stability of the current system, which enables a business to calculate its likely rates bill for five years at a time. The impact of this would affect different sectors in different ways, and might be particularly challenging to sectors which are not valued using the normal rental value approach. In addition, though such a system would improve the link between business taxation and the state of the property market, this might make things harder for businesses during upturns if they had difficulty of rapidly adjusting the use of property as its price changed.

8.111 There are a variety of options for increasing the speed of revaluation. With the improvements in information technology now available it seems likely that annual revaluations would he possible in the not too distant future, though with some cost implications. Another option would be to adopt a system of rolling revaluation in which only a certain proportion of properties would actually be revalued each year, while the others were uprated using statistical analyses of property price changes.

Setting a fixed multiplier

8.112 Under the current system the tax rate is set at the beginning of a revaluation cycle in order multiplier to generate the same level of revenue from the new tax base, and updated in line with RPI each year to maintain the value of the revenue in real terms. This creates a stable and predictable system for both government (which knows how much revenue it is going to collect) and for businesses (who can estimate their bills for five years in advance, subject to any appeals and the impact of transitional relief'). However, as I mentioned earlier, there are potential disadvantages as it means that the weight of business rates is heavier during times of economic downturn when rents are low, and lighter during times of growth.

8.113 An alternative possibility - probably in conjunction with more frequent revaluations - would be to fix the tax rate and allow the yield from the tax to change from revaluation to revaluation depending on the state of the property market. More revenue would be raised during periods of growth, and less during periods of downturn. This system should have economic benefits, as it would make taxation better linked to the market situation, helping to ease demand during growth periods and support it during downturns. It might also have advantages from the perspective of the local government finance system, as it would make it easier to provide financial incentives, which would encourage local authorities to enhance the value of business properties in their area, as well as supporting growth in the number of properties. This is also noted in Chapter 9.

8.114 However, it would make business bills more variable from revaluation to revaluation, and businesses might find it difficult to renegotiate their rent or adjust their use of property appropriately between revaluations depending on the extent and predictability of fluctuations. It would also expose central and local government to greater variability in their revenues.

Setting rates at local level

8.115 My recommendation for the introduction of a local supplementary power is a limited new local level power for local authorities to alter the rate of tax paid by businesses in their area. In the longer term, those limits should he reviewed, taking account of how relationships evolve between local authorities and businesses, and the evidence on the economic impacts of better local authority engagement with economic development is The localisation of revenues and power for local authorities to set the tax rate for themselves in the light of local circumstances, including making the choice to set a lower tax rate, could be considered. Businesses have made clear their concerns about such a radical step in the short term, bun it is a decision future governments may wish to consider as new arrangements evolve.