# 2017 Non-domestic rating revaluation – consultation on possible transitional arrangements

**August 2016**

Scottish Government
Riaghaltas na h-Alba
gov.scot

## Responding to this Consultation

We are inviting responses to this consultation by 11th October 2016

Please respond to this consultation using the Scottish Government's consultation platform, Citizen Space. You can view and respond to this consultation online at https://consult.scotland.gov.uk/lgas/2017-non-domestic-rating-revaluation. You can save and return to your responses while the consultation is still open. Please ensure that consultation responses are submitted before the closing date of 11th October 2016.

If you are unable to respond online, please complete the Respondent Information Form (see "Handling your Response" below) to:

Scottish Government

Local Government Finance, Local Taxation Policy & Business Rates Unit

Area 3J North

Victoria Quay

EH6 6QQ

## Handling your response

If you respond using Citizen Space (http://consult.scotland.gov.uk/), you will be directed to the Respondent Information Form. Please indicate how you wish your response to be handled and, in particular, whether you are happy for your response to published.

If you are unable to respond via Citizen Space, please complete and return the Respondent Information Form attached included in this document. If you ask for your response not to be published, we will regard it as confidential, and we will treat it accordingly.

All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

## Next steps in the process

Where respondents have given permission for their response to be made public, and after we have checked that they contain no potentially defamatory material, responses will be made available to the public at http://consult.scotland.gov.uk. If you use Citizen Space to respond, you will receive a copy of your response via email.

Following the closing date, all responses will be considered along with any other available evidence. Responses will be published where we have been given permission to do so.

## Comments and complaints

If you have any comments about how this consultation exercise has been conducted, please send them to:-

BusinessRatesGeneralEnquiries@gov.scot

## Scottish Government consultation process

Consultation is an essential part of the policy-making process. It gives us the opportunity to consider your opinion and expertise on a proposed area of work.

You can find all our consultations online: http://consult.scotland.gov.uk. Each consultation details the issues under consideration, as well as a way for you to give us your views, either online, by email or by post.

Consultations may involve seeking views in a number of different ways, such as public meetings, focus groups, or other online methods such as Dialogue (https://www.ideas.gov.scot)

Responses will be analysed and used as part of the decision making process, along with a range of other available information and evidence. We will publish a report of this analysis for every consultation. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review
- inform the development of a particular policy
- help decisions to be made between alternative policy proposals
- be used to finalise legislation before it is implemented

While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body.

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**RESPONDENT INFORMATION FORM**

**Please Note** this form **must** be returned with your response.

Are you responding as an individual or an organisation?

☐ Individual

☐ Organisation

Full name or organisation's name

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Phone number

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Address

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Postcode

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Email

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The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

☐ Publish response with name

☐ Publish response only (anonymous)

☐ Do not publish response

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

☐ Yes

☐ No

## 2017 Non-domestic rating revaluation – consultation on possible transitional arrangements

## Introduction - Business rates

Business (non-domestic) rates are a property tax paid by occupiers, tenants or proprietors of most non-domestic properties and are fully devolved to the Scottish Government. Local councils administer the system, issue bills and collect payments. The funds raised are used to support services provided by councils, including services provided to businesses.

The pence in the pound tax rate, known as the poundage, is set annually by the Government, along with any supplements. Rateable values of properties are set independently by the Scottish Assessors and are broadly based on the rent a property would fetch on the open market at a fixed point in time.

A rates bill is generally found by multiplying the rateable value of the property by the poundage, although bills can also vary with rate relief and other adjustments.

## Introduction – Revaluation

To ensure bills remain up to date, rateable values of properties are reassessed at regular intervals as part of a process known as revaluation, led by the Scottish Assessors.

The next business rates revaluation takes effect from 1 April 2017, based on rental values at the fixed point of 1 April 2015. Using the same fixed point in time for everyone ensures fairness.

The purpose of a business rates revaluation is to ensure rateable values are based upon up to date rental values and the process itself is not intended to raise extra revenue overall in real terms.

Whilst the revaluation itself does not raise extra revenue, some locations or types of property become more in demand, and so rental values rise as businesses pay more to be located in these areas, relative to the national average; demand falls in other locations or types of property, with rental values decreasing, relative to the national average. This means that at each revaluation individual business rate bills may rise, fall or remain the same.

## Transitional relief arrangements

The Scottish Government has an option to put transitional relief arrangements in place to phase in any large changes in individual rate bills arising from the 2017 revaluation. This is referred to as transitional relief, although in practice it means that some ratepayers pay more or less than they otherwise would.

Transitional relief is only ever applied at a revaluation and is a type of relief which rebalances liabilities between businesses. It operates for a pre-determined number of years (the transitional period) and applies equally to all sectors and areas.

Transitional relief caps significant bill increases that would have otherwise occurred for premises where the rateable value has risen over a set percentage, and enables adjustment to rates bills to be tapered in over a number of years.

It is important to note that unlike all other reliefs, transitional relief is funded entirely by businesses and is not a Government subsidy and it would be unaffordable to run such a scheme as a subsidy.

Transitional relief can last for different set periods from 3- 5 years. The longer the scheme the more gradual the bill rises can be phased in, but also the longer other ratepayers have to wait before receiving their full savings.

Legislation is required to put transitional relief in place.

**This discussion paper considers in principle whether any transitional arrangements should be put in place for 2017.**

## Transitional Relief summary

The pros of transitional relief are

- Ratepayers in areas where property values have increased over a certain level see bill rises phased in over several years

- No impact on those who otherwise recieve 100% relief

The cons of transitional relief are

- Ratepayer in areas where values have decreased over a certain level, who would otherwise see bills fall, do not see those savings for several years

- Bills become significantly more complex and difficult for ratepayers to understand

- Schemes are difficult to model and may require adjustments to ensure they are cost neutral.

- Where a ratepayer wins an valuation appeal they may not see the full benefit for several years

- Because of a recent legal judgement, at the 2017 revaluation there may be more properties split into different liabilities than would otherwise be expected and special rules need to apply when premises are split or merged.

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| Q1 - Should the Scottish Government introduce a transitional scheme for the 2017 Revaluation (please circle as appropriate)?<br><br>Yes<br><br>No |

**Transitional relief examples**

There are a wide variety of options for how transitional relief can be implemented. Transitional relief can run for several years (up to the date when the next revaluation comes into force) and the longer the scheme the more gradual the bill rises can be phased in, but also the longer other ratepayers have to wait before receiving their full savings.

If two schemes run consecutively for the entire revaluation period the result is that a small number will never see the full increase or savings that are due to them.

There are also different models for how transitional schemes are funded:

- by phasing in reductions in rate bills arising from the revaluation through caps on annual reductions or

- by levying a supplement on ratepayers not receiving transitional relief

## Options for a capped transitional relief scheme

As an illustration of a 3 year scheme with a 25% upper cap, a rates bill for premises which would have increased by say 50% in a revaluation year is capped at 25% for the first year (this is the upper cap), 30% for year 2 and 40% for year 3. In years 4 and 5 there is no cap and the full bill is due.

Conversely where a rates bill should otherwise have fallen by say 50% the full value of those savings are not passed on and some of the saving is held back to reduce the impact on those that have seen their bill rise. As an illustration, if a business was due to see a 50% bill reduction, it may only receive a 25% reduction in the first year (this is the lower cap), 30% in year 2 and 40% in year 3. In each year the balance funds the upper cap for those who benefit from the transitional scheme. In years 4 and 5 the full reductions due would be passed on.

The upper cap can be set at any level, but to ensure that a transitional scheme is cost neutral, the level at which the upper cap (i.e. the maximum percentage a bill can increase) is set determines where the lower cap is set. If the upper cap is set at a relatively low level, it follows that the lower cap must also be set at a low percentage for the scheme to be cost neutral.

For the vast majority of ratepayers, where the liability changes by a small percentage or where no rates are payable because the premises attract 100% relief, transitional relief has zero impact. It is only those that see significant increases or decreases in their bill that for a temporary period either fund or benefit from the scheme.

The pros of a capped scheme

- cost of providing transitional relief to those most affected by the 2010 revaluation is met by those who benefit most from the 2010 revaluation. It is also a system which is more familiar to councils and easier to implement.

The cons of a capped scheme are

- cost is recovered from a smaller number of ratepayers and to fund the schemes the reductions from downward caps on large businesses have to be limited in the early years. This means that those whose rateable values have fallen significantly at the revaluation, perhaps because the property market in which they operate has also fallen, would have to wait to receive the benefit of the revaluation.

- No impact for majority of ratepayers

**Options for a Supplement**

An upper cap is set and a lower cap as in the example above, with all savings due passed on in full immediately, but a supplement applies to all businesses to fund the scheme. This is set at a different amount each year (which may be adjusted) to ensure the scheme is self-financing.

The pros of a supplement to fund transitional relief are:

- All ratepayers seeing the greatest reductions will receive most of the benefit without delay and all those who see the greatest rises have their bills capped

- Cost of funding the scheme is spread over a wider range of ratepayers

The cons of a supplement to fund transitional relief are:

- Untargeted. All ratepayers make the same contribution to the cost, based on their rateable value.

- Adds a new complexity to the system. Every single ratepayers bill is adjusted due to the scheme.

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| Q2 Do you have any views on how long any transitional relief should be in place<br><br>(please circle)?<br><br>No scheme<br><br>3 years<br><br>4 years<br><br>5 years |

Q3 Do you have any views on how transitional relief should be funded?

(please circle)

Cap on bill reductions

Supplement on other ratepayers

Q4 Do you have any other comments about transitional relief?

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Edinburgh
EH1 3DG

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