2019 Review of Business Rates

Terms of Reference

Land & Property Services
Seirbhísí Talún & Maoine

Department of Finance
An Roinn Airgeadais
www.finance-ni.gov.uk

Contents

Overview of current non-domestic rating system

1. There are two different rates levied in Northern Ireland: a domestic rate for residential properties and a business rate for non-domestic properties. Business rates are a property tax that is usually levied on the occupier, although in the case of vacant property it is levied at a lower rate on the person entitled to possession (usually the owner). Gross charges (before any reliefs) are levied in accordance with, and in direct proportion to, a property's assessed rental value (also known as Net Annual Value or "NAV"). From 1 April 2015 values reflect the rental value of the property as at 1 April 2013. A Non-Domestic Revaluation is underway that will set revised values as at 1 April 2018 that will form the basis of the rates billed from 1 April 2020 onwards.

2. The total revenue raised through both domestic and non-domestic rates within Northern Ireland is approximately £1.33 billion, with approximately 50% of this being funded by non-domestic rating. This is used to fund both local District Council services as well as regional services delivered by the Northern Ireland Executive such as education, health and roads. Regional Rate revenue provides approximately 6% of the Northern Ireland Executive's public spending. District Rate revenue provides some 70% - 75% of the income of District Councils. In general the District Rate is approximately 40% of a non-domestic rate bill. A high level breakdown of total rating revenue raised in 2018/19 is provided in the following table:

Source	Revenue
District	£590m
Regional	£744m
Total	£1.334bn

3. A system of exemptions and reliefs operates within the non-domestic rating system. The purpose of these reliefs is to reduce the overall rating burden for particular types of property based on criteria agreed by Ministers that relate to various policy objectives. The reliefs and exemptions result in either less revenue being available for both District and Regional services or higher rates for everyone else as the rate burden is redistributed. A description of each relief is available in Annex A and the total value of all non-domestic reliefs is shown in the following table.

Relief	Value
Exempt (e.g. charities)	£96.2m
Industrial De-rating	£62.9m
Vacant	£41.7m
Small Business Rate Relief*	£19.9m
Residential Homes Rate Relief	£9.8m
Sport & Recreation Relief **	£4.9m
Freight & Transport Relief	£2.1m
Total Value	£237.5m

*** Includes enhanced Post Office relief**
**** Includes Community Amateur Sports Clubs**

4. The rating system in Northern Ireland is a separate local tax with no direct links to similar taxation systems in England, Scotland or Wales. In relation to business rates there is harmonisation across the UK in relation to valuation procedure and practice, as far as legislation permits. The systems of reliefs and exemptions are similar in their policy intent, but different in the specifics of how they operate in practice. When business rate reliefs in England are enhanced, Northern Ireland, and other devolved administrations, receive equivalent funding from Westminster often known as 'Barnett consequentials'; however, such funding is un-hypothecated. This means that local Ministers must decide how such monies are allocated. In the absence of Ministers and with no legislative Assembly, the current systems of reliefs and exemptions cannot be changed.

5. The domestic rating system is Northern Ireland was reformed in 2007, and is based on 2005 capital values. Council Tax operates in GB with values in England based on 1991 levels. Council Tax is a banded system and is regressive in nature, whereas the reformed system of domestic rates in Northern Ireland is progressive and also fairer, being based on much more modern and individual values.

Scope of the Review

1. A number of key principles to underpin the direction of any review were identified by an Innovation Lab conducted in 2015, namely that the resultant system after a review should have the following features:-

- Simplicity;
- Predictability;
- Certainty;
- Be hard to evade; and
- Be easy to collect.

2. These features align well with generally accepted requirements for local tax:-

- The distribution of the tax burden should be equitable and includes the incidence of the tax;
- The revenue yield should be adequate and the tax structure should not threaten overall fiscal targets (revenue neutrally is a working assumption but this will not bind decision makers; whatever system emerges will need to be scaleable);
- There should be minimum interference with economic decisions in otherwise efficient markets; unless this is in pursuit of a wider strategy; and
- The system should permit fair and non-arbitrary administration, should be understandable to the ratepayer or taxpayer, and administration and compliance costs should be minimised as far as possible.

3. The parameters for this Review are as follows:-

- Whatever options or proposals are explored must result in similar levels of revenue being raised overall for the NI Executive and local government as by the current rating system;
- It should seek to explore the possibilities of widening the tax base and lowering the tax rate (poundage);
- It will not seek to abolish non-domestic rates - a substantial portion of the revenue will continue to be raised from a tax that is levied against the value of property;

- It will examine alternative taxation options that may complement or perhaps partially replace non-domestic rates;
- It will consider how non-domestic rating aligns with the outcomes of the Programme for Government and the strategic objectives of relevant economic, social and environment policies;
- It will consider equity within the rating system and whether it can be made fairer and more closely linked to ability to pay. This will include an examination of all existing reliefs and exemptions to determine whether they remain appropriate and balanced between domestic and non-domestic rates at district and regional level;
- It will examine the UK government's policy proposals in relation to 'Making Tax Digital' which is a key part of the government's plans to make it easier for individuals and businesses to get their tax right. These future proposals, where they relate to business rates, will be considered;
- It will examine aspects of the domestic rating system and how it operates in relation to the non-domestic system; and
- It will examine policies and processes for raising local revenue operating nationally and internationally.

Conduct of the Review and projected timetable

1. The key stages and target completion dates are set out in the table below:

Key Stages	Projected Timetable
Review announced	9 May 2019
Innovation Lab on town and city centre regeneration	2 and 3 July 2019
Undertake initial research	June to August 2019
Announce details to open Consultation period	16 September 2019
Undertake Public Consultation	8 weeks - 16 September to 11 November 2019
Business Rates Review Team to attend stakeholder events to discuss Consultation and listen to debate and feedback. Attend further business rates specific Innovation Labs.	August to November 2019
Consider Consultation responses	November 2019 / January 2020
Consider how emerging recommendations could be reflected in proposals for the 2020/21 Regional Rate	December 2019 / January 2020
Publish Consultation report	Spring 2020

Note: Revaluation 2020 will result in a new valuation list being released in draft by the end of November 2019 and a new list will come into effect on 1 April 2020. This is separate from the Business Rates Review.

Consultation and engagement with key stakeholders

1. A number of questions have been developed to be put to Public Consultation. These take account of known constraints, including financial, legal constraints and state aid requirements.

2. The Terms of Reference will be placed in the Assembly Library.

3. The Department throughout the review process will engage with key stakeholders. The Business Rates Review Team will attend stakeholder events throughout Northern Ireland, respond to invitations, and engage in business rates specific Innovation Labs during the Consultation period. Precise locations of Labs to be finalised, but plans are to include Derry/Londonderry, Newry and other locations as considered necessary. Given the level of collective knowledge now contained within the initial Innovation Lab held in July 2019, it may be the case that this group could be reconvened at a later date as a sounding board to develop precise options. The group has already expressed a willingness to help in his regard.

Consideration of options

1. All options that will be presented will also be fully costed so that the full resource implications of any change will be known. Furthermore, an integrated impact assessment will be carried out, which can be updated as and when further impacts become known.

2. Options will be judged in terms of their suitability against principles and criteria set out above.

3. When the Review is completed, the outcome and recommendations will be presented to the Executive and decisions sought as appropriate.

ANNEX A
Description of principal non-domestic reliefs

Relief	Description
Charitable Exemption	If a property is, occupied and used for public benefit or for charitable purposes, which includes formally constituted trusts for: - • the advancement of religion; • the advancement of education; • the relief of poverty; and • other purposes beneficial to the community, it is exempt from rates. However, this only applies if the organisation occupying the property is not established or conducted for profit, and that the use of the premises directly facilitates the charitable objectives e.g. a church, that is held by trustees whose main objects are, the advancement of religion, and the church building is used in connection with these objects. The use of the premises for recreation or other leisure time occupation may also be considered to be charitable if the facilities are provided in the interests of social welfare and are for the public benefit. The use of premises as a charity shop will attract exemption if the charity sells goods that are wholly donated; however, if they also sell bought in goods the valuation of the property will be apportioned between the two uses.

Relief	Description
Industrial De-rating	To qualify for de-rating a property has to be, technically, a 'factory' which is defined in the Factories Act legislation as a property which is mainly used for activities that: - • involve a physical article; • which must be made, altered or adapted for sale; • the work must be done by the way of trade or for purposes of gain; and • manual labour must be employed in the activity. Even if a property technically a factory, industrial de-rating will not apply if the primary use of the premises is for: - • The purpose of a retail shop; • The purpose of a distributive wholesale business; • The purpose of storage; • The purpose of public supply undertaking; • Any purposes which are held to be not those of a factory. Whilst it was originally intended to phase out industrial de-rating by 2011; following a further review of rating policy initiated by the Assembly it was decided to cap liability at the current level of 30%.

Relief	Description
Vacant	Where a commercial property is vacant, empty premises relief of 50% of the occupied rate will be applied. Where exclusions apply no vacant rating charge is levied.
Small Business Rate Relief	The Small Business Rate Relief Scheme aims to support the growth and sustainability of small businesses in Northern Ireland, by providing some small business owners with rate relief. Subject to the eligibility criteria for the scheme: - • Business properties with a net annual value of up to £2,000 receive a reduction of 50%. • Business properties with a net annual value of more than £2,000 but not more than £5,000 receive 25% relief. • Business properties with a net annual value between £5,001 and £15,000 will receive 20% relief. There is no application procedure for the Small Business Rate Relief, as Land & Property Services apply relief automatically to all businesses that qualify.
Residential Homes Rate Relief	The occupiers of the following types of property are entitled to a 100% reduction in the rates payable providing they are used wholly or mainly for one or more of the following purpose: - • The provision of residential accommodation for the care of persons suffering from illness or the after-care of persons who have been suffering from illness. • The provision of facilities for training or keeping suitable occupied persons suffering from illness or persons who have been suffering from illness. • The provision of such accommodation or facilities as are mentioned above for disabled persons not falling within that sub-paragraph. • The provision of personal social services for disabled persons. • The provision of facilities under section 15 of the Disabled Persons (Employment) Act (Northern Ireland) 1945. Application for relief must be made to Land & Property Services.

Relief	Description
Sport and Recreation Relief	Rate relief is available for premises that meet all of the following criteria: - • occupied for the purpose of a prescribed recreation; • occupied by a not-for-profit club or society; and • the club or society does not employ any person to engage in any recreation for reward. Rate relief is provided at a reduction of the normal rate by 80% due on qualifying facilities. In other words, that part of the property which is used solely for the recreation. Areas not used solely for the prescribed recreation are excluded from the relief. Where Community Amateur Sports Clubs (CASCs) do not have a full licence to sell alcohol, the maximum relief available on qualifying Sport & Recreation areas within the club premises is enhanced from 80% to 100%.
Freight and Transport Relief	The occupiers of properties occupied for the purpose of freight transport receive 75% relief from rates. The Department reviewed this relief and it was considered that as the overall sum involved is relatively modest, and that any increase may be substantially passed on into the wider economy, it was decided to retain the level of relief at 75%.

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If you require the document in these or other formats please contact us at

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