

Treasury Committee

Oral evidence: Business Rates, HC 1698

Wednesday 11 February 2026

Ordered by the House of Commons to be published on 11 February 2026.

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Chris Coghlan; Bobby Dean; Jim Dickson; John Grady; Dame Siobhain McDonagh; Luke Murphy; Catherine West; Yuan Yang.

Questions 1-56

Witnesses

I: Dan Tomlinson MP, Exchequer Secretary to the Treasury; Dr Helen Dickinson, Director, Business and International Tax, HM Treasury.

Examination of witnesses

Witnesses: Dan Tomlinson MP and Dr Helen Dickinson.

Q1 Chair: Welcome to the Treasury Committee on 11 February 2026. We are delighted to welcome the Exchequer Secretary, Dan Tomlinson MP, to our hearing today to talk about business rates. It is his first outing at a Commons Select Committee and at this Committee, because he was appointed not long before the Budget. This session is simply about business rates, but we look forward to seeing you, Minister Tomlinson, in future to talk about your wider responsibilities, including as the chair of HMRC. We are also pleased to welcome Dr Helen Dickinson from the Treasury. My opener to you, Minister Tomlinson, is what is the grand plan for business rates, following the manifesto and the election—18 months in?

Dan Tomlinson: Thank you, Chair, for giving me the chance to talk about this important topic with you. The significant change that we made at the Budget was to introduce a differential—

Chair: That was at the Budget, but is that the grand plan? Is that it?

Dan Tomlinson: That change is the first time that we have had the possibility within the business rates system to set different tax rates for high street properties and larger properties—the online giants. As I said in the statement, that now means that the gap between the smallest high street properties and the largest properties is 33%—rates are that much higher for the largest properties. That was funded through increasing the multiplier on the highest-value properties, which cost £900 million. That is a redistribution away from high street properties in terms of the tax paid towards the largest online giants. That reform began with the Budget.

Depending on fiscal space in future fiscal events, and depending on the engagement that we have with parliamentarians about the businesses in their constituency and the work that takes place through the engagement that we will do on our high streets strategy, we will of course want to see whether we can continue to deepen those reforms. But that 5p reduction was a significant step, and then—

Q2 Chair: We are going to go into the detail of that. So this is the beginning of the plan.

Dan Tomlinson: There is also a range of other reforms. At the Budget, we published a call for evidence about the further transformation of business rates, which asked particularly about slab to slice. You will be familiar with the way that, a few years ago now, George Osborne changed the stamp duty system from a slab system to a slice system, so there are not those cliff edges in the system. We have heard from businesses that the different cliff edges in the system can lead to a disincentive to invest in and grow their business, because if they tip over the threshold, they pay the higher tax rate on the whole value of their property, rather than just on the margin of it.

Chair: We know how that works.

Dan Tomlinson: We have said that we are going to look at slab to slice reform. The question, of course, is: how do you design it? If you go from the kinks to a straighter line, what would be the implication of that? That is really worth looking at.

We also want to continue to look at the design of some of the parts of the system that could be changed to further support investment. We have said that improvement relief is something we would like to look at. We also announced at the Budget that we are extending small business rate relief from one to three years for the smallest properties.

Q3 **Chair:** We will come on to the reliefs. In broad terms, the plan is to possibly move from slab to slice and to deepen that differential between high streets and bigger businesses. What is your timeframe? Things in the business rates world do not move fast.

Dan Tomlinson: We will have more Budgets in this Parliament, of course. This revaluation will go on for three years, so until 2029. Alongside that, the other reform we will introduce, which I am sure there will be questions on, is to make changes to the valuation methodology for some sectors, some of which we said we will look at before the Budget and some of which we said we would look at afterwards.

Q4 **Chair:** So really it will be 2029?

Dan Tomlinson: It is difficult for me to comment on timelines for this, because in part it depends on the fiscal position in future Budgets and the competing priorities, which your Committee is more aware of than most people, that will be on the Government. We are seeing borrowing fall in every year, and that is the sort of thing that the Government will want to maintain.

Q5 **Bobby Dean:** Minister, can I just get clarity? The Labour manifesto stated very clearly that "Labour will replace the business rates system". When I asked your predecessor, the Member for Ealing North, about this, when he was in front of the Committee around this time last year, he said that you were going to "keep reforming...over the course of this Parliament." It sounds like you are saying something similar. Is it no longer the Labour Government's commitment to replace the business rates system?

Dan Tomlinson: The changes that we made at the Budget are significant—the £900 million shift away. The business rates system is still here. We are not saying now that in future Budgets the system will be abolished in its entirety, but we are looking at what we can do to significantly lower the burden on high street businesses, and we have started the process of doing that with the changes in the multiplier.

Q6 **Bobby Dean:** But that is iterative reform, and you stated in your manifesto that you were going to replace the system. What did the Labour party have in mind when it wrote that line in the manifesto? Was there an idea of a system that you wanted to move towards, and did you decide to abandon that after getting into office for any particular reason?



Dan Tomlinson: I believe—I don't have the text right in front of me—that the manifesto also said in the next sentence, and you may have it there, that we would look to see how we could reform it to support investment and to support high street businesses, and we are doing that, too.

Q7 **Bobby Dean:** But it is incremental, so it is no longer the Government's intention to replace the system. As you said, when you first got into office, there was a consultation period on a change, and a change has happened. You have now said that you are starting another consultation period on a change. We are just trying to get a sense of the urgency to replace the system versus tinkering with it consistently over the course of the Parliament.

If I can move on to the point you just mentioned, about how the "current business rates system disincentivises investment"—that is a line from the Labour manifesto—one of the reasons people say that is because, in part, business rates are calculated based on how businesses are performing, with different bits based on revenue. Others have suggested that if you just focused on the land, that would be a better system overall, because you would no longer be punishing those that invest in their businesses and get higher returns. Is that something you are looking at trying to fix?

Dan Tomlinson: This is getting into the detail of the way that different businesses are valued for business rates. Most high street businesses—cafés, restaurants, shops—will be valued on their floor space. There is a complex methodology, which the Valuation Office Agency publishes in consultation with the sector and experts in this space, that puts different values on different bits of land within the shop—if it is closer to the window in the shop front, it is worth more; further back, it is worth less. That is the way that most of these businesses are valued on the high street.

Then you have this unique situation for pubs and some other businesses, where the vast majority are valued on what is called their fair maintainable trade or fair maintainable turnover. Basically, their valuation is determined on their turnover—how much they take in—and then there is an adjustment depending on whether they are in an inner city or a more rural location. In years gone by, the independent VOA decided that was a better way to value pubs, because a rural pub might be really big and its floor space might be really high, but its turnover could be really low, so it wouldn't be appropriate to value it based on its floor space.

Q8 **Bobby Dean:** But it does mean that if you have two pubs in a similar postcode of a similar size and one is performing better than the other, the one that is performing better gets taxed more as a result. That could disincentivise pubs from investing in their businesses and coming up with clever ways of generating more revenue, and so on. That is surely not what we want in the economy.

Dan Tomlinson: That is just the sort of thing that I want to look at in the review that we announced in late January, when we announced the new relief for pubs and music venues. We heard that loud and clear from the publicans and the groups that represent them after the Budget. Before the



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Budget, we had not had strong and significant representations from the sector about the way it was valued. Once individual pubs got their rateable values after the Budget and looked at how that matched up with what had been changing in terms of their takings and the pressures they had been under, some of them had this sense, as you are putting it, that they are running to stand still.

Stepping back, the objective of the business rates system—I believe it is set out in legislation passed in 1988, although I cannot recall the name of the Act; perhaps Helen can—

Chair: We will forgive you that.

Dan Tomlinson: The objective is for business rates to broadly reflect rent. That is what is in the law, and that is how the system has operated for many decades. The intention of the review that we are carrying out is not to break from that for pubs—or for hotels, which we are going to look at, too, because they are valued in a similar albeit slightly different way from pubs, and I am happy to go into that—but to see whether we can more appropriately and more clearly value these businesses in a way that is in line with their rent.

Q9 Bobby Dean: You mentioned the confusion for pubs, and that they did not realise quite what the effect was going to be. I think part of your answer explains why: there are so many different layers to how you calculate your bills. The rhetoric from the Government before the Budget made it sound to businesses like their bills might go down, or at least like they would not go up as much as they thought, because they were told that business rates would be cut. Their rates specifically were, but obviously their bills were to go up significantly—and there is withdrawal of reliefs, and there are complicated ways that you work it out even after you have got the rateable value. I guess this is why the Labour party said that they wanted to replace the business rates system, because it has got far too complicated. Do you not agree that a system that relies on so many reliefs to function in an orderly way for the economy is a bad system?

Dan Tomlinson: I don't agree with that, because I think that some of the reliefs play a really important role. For example, the small business rates relief, which you receive if your rateable value is less than £12,000 and is then tapered between £12,000 and £15,000, is a really valuable relief. I believe that a third of businesses across the country have a rateable value such that they are receiving small business rates relief, and I think that is really important. I think reasonable small business owners would agree with me that, actually, when you are first starting a business, particularly if it is in a lower-value area or a small premises, rather than having to engage with the business rates system from the off, it is appropriate to wait until some threshold. At the moment that is set, as I say, between £12,000 and £15,000.

There are other important reliefs, too, such as rural rate relief. I know that some Committee members will represent rural constituencies, or at least constituencies with rural parts. If you have just one post office or shop in



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a village, in the Government's view it is worth having within the system a rural rate relief so that you can try, in the tax system, to protect the ability for that one shop or pub or what have you to stay in the village.

I take the point that the system is complicated, and at the Budget we moved from having two tax rates to five, which is an additional complication, but I think Committee members can see why we wanted to do that in order to have that wedge in the system for the first time. I do stand by some of the principle behind some of the reliefs in the system.

Q10 Bobby Dean: There will probably always be a point to coming up with specific reliefs to cover the kinds of circumstances that you raised, but it is not just those specific reliefs in place. For a long time, we had the covid reliefs, which had to be extended, partly because we were worried about the impact that not doing so would have on businesses. At this Budget, the Government decided there needed to be a transitional relief because of the way in which the rateable value was changing, and then post-Budget further reliefs were required in order to get the system to function. We are going to get to another revaluation, I guess, in a few years' time, at the same time that these reliefs run out. Are you not just going to be in the same position again? Will you not just have to introduce further reliefs to avoid the impact on businesses?

Dan Tomlinson: There is a specific point about the broader relief for the retail, hospitality and leisure sector. I asked my officials to draw this out for me, because I thought this might come up. In 2013, there was a £1,000 relief for shops, then it was increased to £1,500, then there was none in 2016, then there was a—I will not bore the Committee with the whole list, but there has been a lot of chopping and changing. Almost every single year since 2013, there was a change to the reliefs for businesses on the high street. Sometimes there was none; in the pandemic, it went up to 100%.

One of the reasons why we wanted to make this underlying reform to the system by passing the legislation last year was so that we could move away, over time, from the need for temporary and uncertain reliefs in the system.

One of the challenges—one of the things I have been saying in the Commons—is that even though we were in the middle of a revaluation period, the previous Government's stated intention in the costings that were set out in the OBR documents was to remove the relief overnight in 2025. Opposition politicians say that that was not their intention, but it was not in the costings, and that would have led to uncertainty for businesses.

We want to move, over time, through the fact that we have the lower multipliers. I take the point that others may come to that other things have meant that some bills are going up for some retail, hospitality or leisure properties. But we have those lower multipliers now, and that is a sustainable route within the system that can give that long-term certainty to businesses on the high street.



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Q11 Bobby Dean: The next package of reliefs is due to run out around about the same time that the rateable values will change again. It also happens to be around election year. Are you not going to have exactly the same problem again in a few years' time?

Dan Tomlinson: There are a number of Budgets between now and the 2029 revaluation. As I have said, given the fiscal position and all the constraints, we have made that decision with the 5p reduction, but the Government are not closed to going further on that. It will depend on a whole range of circumstances, and that decision will be made in the usual way at the Budget by the Chancellor.

Q12 Luke Murphy: You say that the Government are trying to move towards giving more long-term certainty to business. However, by having such a long period over which the Government are seeking to reform business rates, do you not think that in the short to medium term it is creating more uncertainty for business? Are you concerned about the uncertainty that that timeline for reform creates?

Dan Tomlinson: As I say, particularly for high street businesses, there has been a lot of chopping and changing every single year for the last decade. I don't know whether it happened before, too, in the years since 1988 or whenever. That is the sort of thing that we want to move away from with high street businesses. That is why we have put this permanently lower multiplier within the system—the 5p reduction. That means that, on top of the overall change in the multipliers because of the revaluation, the multiplier for high street businesses—their tax rate—is falling by either 12p or 12.5p. I think the Government have been as clear as we can be that our intention is not to reverse that 5p change.

If we can, we want to go further. On the run-up to Budgets and tax changes getting made each year, one of the things the Government are doing is making sure that we do not make tax changes twice a year overall. High street businesses, like other businesses in the economy, can look to the autumn Budget, rather than a spring statement, as the big fiscal event. I know this Committee is aware of that, so that will help with uncertainty too. We are hoping to move towards, first, a system where the changes in the multipliers can be less frequent than every year, as previous Governments were doing, and secondly, one that is not tied to these reliefs that can chop and change as much as they have.

Q13 Luke Murphy: Stepping back and thinking about the broader reforms, successive Governments have made quite big statements in opposition about reforming business rates. Eighteen months into the Government—a few months into your time in your position—I wonder whether you have any reflections on the challenges of reforming the system more broadly, and things that you have learned about that since coming in to office.

Dan Tomlinson: The main thing to be aware of on business rates is that I believe that, net, this year coming, they will raise £34 billion.

Dr Dickinson indicated assent.



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Dan Tomlinson: Yes, £34 billion. That is a lot of money; that is a very significant share of the tax revenues that we pull in. That is broadly the same as was forecast, before the spring statement, for next year. Some people want to make the point that this is a very significant tax rise overall. Actually, this year coming, after we have introduced the various reliefs and support, the amount that we are raising in business rates is broadly the same as was forecast in the spring statement earlier in the year. That is a significant amount of revenue.

One of the things that is important in a tax system, which I can see as the tax Minister, is to ensure that you have a broad range of sources from which you are pulling revenue in. It is more sustainable for the long-term health of the public finances not to be reliant on a small number of taxes, but to have a broad base. That would be my word of warning to politicians who say that they can flick a switch and suddenly have £34 billion of revenue disappear from the tax system.

Q14 **John Grady:** I have just a quick question. You said in the House that the Barnett consequentials from the changes announced for pubs would be set out in the usual way. Are you in a position to explain how all these reforms will affect the Barnett consequentials?

Dan Tomlinson: Not other than to say that they will be set out in the usual way. We will make sure they are set out clearly in the spring forecast on 3 March, which is now just a couple of weeks away. It will apply in line with the statement of funding policy in the usual way because this is a fully devolved system.

John Grady: I suggest that we look at that, and then we might come back to you in writing.

Dan Tomlinson: I would be very happy if you come back to me after 3 March.

Q15 **Dame Harriett Baldwin:** This is obviously a very technical area. I want to focus my questions on the political decision making. You were appointed on 1 September last year. How quickly was it flagged to you that there was this issue coming down the line—that, according to the Valuation Office Agency, there was a 32% revaluation in the pub sector? Did that get flagged to you on day one as something that you would have to deal with in the Budget?

Dan Tomlinson: I came in on 1 September with a whole range of tax heads and elements of the tax system to focus on with officials and Ministers in the run-up to the Budget, and we had a whole range of meetings on business rates. It is worth me being really clear that we received data from the Valuation Office Agency about the changes in rateable values. That is analysed by officials in MHCLG, who work with Treasury colleagues, and then present Ministers with the changes in the rateable values by sector. They can't present us with the changes for individual businesses, of course—you understand this, but it is worth me being clear. That would not be appropriate for us to know, as there is a duty of taxpayer confidentiality. But in the run-up to the Budget, we did



know what the changes in the rateable values would be, and that is why we came forward with the £4.3 billion of support. I want to be really clear about that.

- Q16 Dame Harriett Baldwin:** What I am hearing is that you thought that the £4.3 billion was going to be satisfactory to address this political issue, which was obviously looming in your inbox in the run-up to the Budget. Do you accept that, in terms of the rhetoric—Mr Dean has referred to this—what people in the sector heard was that we were moving to a permanently lower rate of business rates? The UK Statistics Authority yesterday rather rebuked that rhetoric by saying, “there were opportunities for improvements to...avoid the potential for people to be misled.” Do you feel that the sector heard the message that this was going to be permanently lower and was therefore rather taken aback when the valuations went up as much as they did?

Dan Tomlinson: I think that the challenge—this is a lesson for Government—is that we legislated for an up to 20p reduction in the multiplier. We chose to go for a 5p, rather than a 20p, reduction for the reasons that I set out relating to fiscal sustainability. We decided to make sure that that 5p reduction, worth almost £1 billion, was funded within the system rather than through additional borrowing, because of the challenges to the public finances of additional borrowing, which this Committee is, of course, very aware of.

The fact that we legislated for the full 20p meant that people expected that, but that was not because of words that the Government said. I have spoken a lot to the Chief Secretary to the Treasury, who was in the role before me, and when I came into the role, I did sector engagement and spoke to Members of Parliament about what was coming. I was always clear that we wanted to get the balance right and that that was the maximum. But, because that was the maximum legislated for, I do think that some people expected that that was what the Government would do on the day.

I also think that people underestimated the impact of the unwinding—not internally, but externally. The individual businesses that had to wait till the day of the Budget to see their rateable values probably underestimated the extent of the increases in their rateable values after the pandemic. As this Committee is aware, businesses were last valued in 2021, when the pandemic was still in full swing. The latest valuation was 2024.

- Q17 Dame Harriett Baldwin:** Do you accept the rebuke from the UK Statistics Authority that you could have been clearer in the messaging, and that you could have said that it wasn’t just going to be permanently lower and that there were these other things happening?

Dan Tomlinson: Well, one of the things that lots of businesses will have done is go online and look at the page that I and officials made sure was signed off and clear before the Budget. The UKSA said in its reply that we provided a good level of detail on the impact—

- Q18 Chair:** No, that is an answer to a different question. As Dame Harriett has



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been highlighting, there are issues about communication, with you saying people may have been overoptimistic about what the impact would be. Do you think you and Government generally could have been better at communicating?

Dan Tomlinson: When I did the statement in late January, I overran in the Commons, as you may remember; that is a learning for me. The reason I overran was because it is a very complicated system. I cannot recall how long the Chancellor's speech was in the autumn Budget—I imagine it was around an hour. The time you get to spend in a Budget speech on each tax head is quite limited. In hindsight, should the Chancellor have spent many minutes, rather than a few sentences, on business rates? Potentially, but the big-picture point that she did make in the speech—that the tax rate and the multiplier for the smallest high street businesses—

Q19 **Chair:** It was not just at the Budget. There was a lot of positive mood music—I think you talked about the lowest business rates since 1991.

Dan Tomlinson: Yes, and the tax rates, and the multiplier within this—there is a whole reform—has now fallen.

Q20 **Chair:** Do you not think there was an oversimplification of the message to make it sound a bit more positive across the board than it felt for individual businesses?

Dan Tomlinson: This is what I was trying to do when I made the statement in late January—

Chair: We have all read that, by the way, and we were in there.

Dan Tomlinson: Just to set out, there are these three big things happening—I will not go through them again. On the day of the Budget, the Government focused on the big change that it had agency and control over, which was the change in the tax rate and the change in the multiplier. Because the rateable values are set independently, that might have been something that we did not choose to focus on.

Chair: We know.

Q21 **Dame Harriett Baldwin:** I think, Minister, you would have to accept that it is a political problem when you then have to come back and make the changes that you did in that statement a month after the Budget.

I will move on to the point I think you made in that statement in the Commons: that you thought the transitional relief announced in the Budget would satisfy the pub sector. In fact, I think you said you felt that they had signed up to that and that you were a bit taken aback after the Budget when there was clearly a lot of pushback, with a lot of Labour MPs banned from their local pubs and so on. What agreement did you think you had come to with the pub industry? What evidence can you share with us today about the fact that you thought the industry had agreed to the approach?



Dan Tomlinson: That is an important question, and it is worth me going through it. Different members of the industry had previously supported the guidance on how the methodology was applied to the valuation of pubs. There is this group called the Pubs Rating Forum, which consists of the British Beer and Pub Association, UKHospitality, the British Institute of Innkeeping and some other important sector bodies. On 2 December—after the Budget—the BII withdrew its support for the guide that it had previously given its broad support to. The day after, on 3 December, the BBPA, UKHospitality and the Society of Independent Brewers and Associates did the same thing. Other groups did so later on. This was really serious. For many years, these sectors had been signed up broadly to the way that pubs were valued—because of the issues I was discussing earlier, they are valued uniquely compared with shops, restaurants and the like.

As well as those decisions, I had engagement with the pub representatives after the Budget, when they raised concerns broadly about the issue referred to earlier: the sense of whether it is right that they are valued on their takings alone, with that sense of running to stand still over recent years. We looked at that really carefully in December and January, and we concluded that we did want to come forward with a chance to review it in slower time. We are going to engage with the sector, I hope to engage with parliamentarians and I will be happy to talk more with the Committee about it, too.

Q22 **Dame Harriett Baldwin:** Do you agree that it was a political disaster, effectively, wasn't it?

Dan Tomlinson: I do not agree with that.

Q23 **Dame Harriett Baldwin:** You have had to make further changes to address this. What lessons can you learn about the whole communication around this episode and the communication of what you thought was going to be the appropriate level of relief that you announced in the Budget?

Dan Tomlinson: The main lesson is that business rates are a very complicated tax. It is about giving it the space and, in both our political communication as a Government and our engagement with the sector, being really clear about the way in which lots of different things were happening on Budget day.

My advice to the person in my role in 2029, if I am not still there, would be to publish the rateable values many months before the Budget, so people can see and engage with them ahead of policy decisions. For many years, it has been the done thing—I checked in advance of the Budget—for the rateable values to be published on Budget day. One of my learnings and pieces of advice, which I am happy to share and which I think should be socialised, is to publish those rateable values beforehand.

Chair: Thank you for being so candid.

Q24 **Dame Harriett Baldwin:** You will also move on from the simplistic



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political rhetoric around permanently lower rates, which could be misunderstood, as the UK Statistics Authority has pointed out.

Dan Tomlinson: As you saw in my statement, I will now always make sure to be clear that yes, the rates and the multipliers are lower—

Chair: Okay, thank you—we have heard that a few times.

Dan Tomlinson: But there are other things happening at the same time.

Chair: Which we appreciate.

Q25 **John Grady:** This is a very complicated area, as you have explained. What you say suggests that people may have underestimated the impact of the changes. I want you to think for a moment about those people. Imagine you are a publican; you are a husband-and-wife team getting your two kids off to school; you have a load of stuff to do to run your pub, because running a small business is tough. Do you think that the Treasury has done nearly enough to communicate clearly to the people working hard to run those businesses? Are there any lessons that the Treasury can learn about helping those people to understand business rates, given how long it is taking you to explain it here?

Dan Tomlinson: Yes, there is a lesson that we can learn, and we learned it for the day we did the announcement on the pubs and music venues relief. It links in part to the lesson that I was just discussing on potentially publishing the rateable values earlier than the Budget, which is something I would look at in 2029.

The other thing is that, as you say, many people are running their own business. Lots of them will have a detailed and thorough understanding of the difference between their rateable values and their bills, but some—I know this from engagement with businesses in my constituency—are so focused on the business that the tax happens somewhere else and they do not engage with it in significant detail.

Drawing out that distinction between the rateable value and the change in bill is really important. On the day of the Budget, the Valuation Office Agency published the changes in the rateable values, up in lights. For example, some businesses saw that their rateable value was going up by 80%. But the changes in bills were not foregrounded: you had to click through on the VOA page, and then you could get to the calculator that showed you what your bill would be.

Q26 **John Grady:** Minister, we could take a lot of time on this, so I suggest that the Treasury write to the Committee to explain how it will make sure that it is as clear as possible to busy small businesses owners, including the steps it is taking to understand the impact from a business owner's point of view.

Dan Tomlinson: Just on that point, very briefly—

Chair: Very briefly. We will be bleeding over time, so it is in your hands.



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Dan Tomlinson: On the day of the change for pubs and music venues, we published an online tool that businesses could put in their rateable values into and see their bill. That was put up in lights, and I have had significant positive feedback about it. That is the sort of thing to do in future: bringing forward what the bill change will be, not the rateable value. That will be really important.

Chair: You also said, in response to Dame Harriett, that you want to see those valuations up earlier. Thank you for that.

- Q27 **Catherine West:** We will now move on to definitions. The Government have provided extra relief to all music venues, irrespective of whether they are currently valued as pubs or like other high street businesses. Will this result in an unfair advantage for some live music venues, versus other firms on the high street? For example, some music venues that are valued in the same way as shops and restaurants will get reliefs that shops and restaurants do not receive. Is that sensible, Minister?

Dan Tomlinson: This is difficult. It is definitely not easy to draw a line in the system and give relief to some businesses and properties and not others. First, the guidance that we have used draws significantly—in fact, in many places it is a carbon copy—on the guidance that was published for councils when the previous Government implemented a pubs relief in 2017. That was a £1,000 discount. Local authorities will be familiar with the guidance, because it draws on the same definition. We have been in contact with councils. We engaged with them before, on a confidential basis, to make sure that this could be implemented. Helen might have some detail to add on the guidance and the specific ways in which it has or has not been used before, if that would be helpful.

Dr Dickinson: Yes. We make decisions on the guidance and how to classify different properties for the reliefs based on the characteristics and nature of the properties, not the method used to value them. In this case, music venues, particularly smaller ones, often have a lot of similar characteristics to pubs. That suggests that a pubs relief should also include live music venues. Trying to make a slightly artificial decision by distinguishing by size of music venue did not seem appropriate. The boundary decisions on where the relief falls are independent of the methodology used to value the sectors.

- Q28 **Catherine West:** Is the business rates system sufficiently sophisticated to tell apart live music venues that are based on their fair maintainable trade from ones valued in the same way?

Dr Dickinson: Ultimately, decisions on the practical applications of the reliefs will sit with the local authorities applying that guidance, which will know the businesses in their area. As I say, they will not need to refer to how the property is valued; they will refer to the guidance on whether it is a live music venue.

- Q29 **Catherine West:** Finally, this is something that has been trailed in the House. Some grassroots music businesses, such as recording studios, will not benefit from the relief given to live music venues. Why have your

extra reliefs differentiated between different parts of the grassroots music infrastructure? Is there an opportunity for MPs to write in on specific cases so that they can be reviewed?

Dan Tomlinson: I am always happy to receive correspondence on these matters. You asked about recording studios in the House. One of the key things for the relief is that venues are “reasonably accessible to visiting members of the public”. As recording studios are not generally open to members of the public in the same way as a pub or a bar might be, they are unlikely to be eligible for the relief. They are often used wholly or mainly for business or professional purposes, and not for people to come in off the street and gain access.

Q30 **Chair:** But music studios will charge an hourly rate for their use. In our constituencies, Ms West and I have seen rateable values for studios increased by at least three valuations on average—some by 25%, but some up to 400%—and they are excluded from reliefs. The hourly rate cannot keep up with the business rates. That is one example of a sector, but there are others. Is there an understanding in the Treasury of how businesses actually work?

Dan Tomlinson: That is one of the big challenges with the business rates system. There are so many different sectors with so many different pressures and challenges. That is why, overall, we came forward with the changes to transitional relief and the supporting small business scheme. I do not know about individual businesses, but if the ones that have been in touch with you are valued at less than £100,000—

Chair: That is very unlikely in parts of London, Minister.

Catherine West: Zone 2 of London does not provide for anything under £100,000.

Dan Tomlinson: If they are valued at less than £100,000 and they are already in the business rates system, their bills will be capped at 15%. Even if their rateable value has tripled and it is right at the very end of the distribution of changes in value, which is rare—I believe that only a very small percentage have seen their rateable values more than double—their bill increases this year will be capped at 15%. If they are worth more than £100,000, their bill increases will be capped at 30% this year.

Q31 **Chair:** But there are a lot of businesses in London worth well over £100,000; that is quite a low rateable value for London. It is a big issue for a lot of London businesses. Is it a London tax?

Dan Tomlinson: It certainly is not, no. One thing we have sought to do is make sure that we have put caps in across the whole system this time.

Chair: For now?

Dan Tomlinson: No, the caps are in place for the whole period of the revaluation. The previous Government’s plan was to stop some of these changes between revaluations. We have clearly set out that, until April 2029, which is the planned date for the next revaluation, these caps will



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be in place. Of course, there are caps again next year, and the year after, for businesses whose values are going up significantly.

- Q32 **Catherine West:** I will certainly write to you, Minister, but may I also ask about definitions? For shared office spaces, such as a unit, a building or units in a building, there was a very generous scheme during covid. Unwinding that is quite detrimental to the Government's overall growth agenda. What steps will you take to look at that again, or to make allowance for those different shared office spaces?

Dan Tomlinson: Shared offices is, again, another sector with issues that I have been focusing on. I have met with the sector to talk about the changes that are coming down the track for some of them. This is less about the unwind from the pandemic, or changes since the pandemic, and more about changes in case law, in terms of how other businesses are valued and the relevant way of assessing whether it should be the whole property or the sub-units within it. I believe it is currently being contested in various courts and tribunals, so it is not right for me or Helen to go into detail on that, because it is under discussion as a result of changes in legal judgments over recent years. As and when those things begin to resolve, I will be very happy to talk more to the Committee about it.

- Q33 **Catherine West:** Would a six-month period be reasonable? Perhaps you could come back in six months.

Chair: I am sure we will have Minister Tomlinson back on his wider portfolio.

Dan Tomlinson: It is certainly something I will be willing to consider.

Catherine West: It is very important.

Chair: As Minister Tomlinson chairs HMRC, he will be a regular visitor to this Committee.

- Q34 **Luke Murphy:** Many high street businesses, including in my constituency of Basingstoke, are looking at pubs and thinking, "What about us?" They are already struggling with a number of pressures and feel that they have been affected by the rateable values. There is clearly a different methodology for pubs—that has been explained previously—but many other high street businesses are still struggling as a result of the increase. What is the plan for them? How will you deal with the sense of unfairness because pubs have been given a package when they have not been given similar support?

Dan Tomlinson: The first thing I would say—this is a challenge to say to an individual business, but for members of the Committee it is worth being aware of the overall changes that are taking place in the business rates system—is that 59% of retail, hospitality and leisure properties will see their bills either falling or flat. It is often zero, because they have the small business rate relief, which is a relief that the Government have chosen to maintain. This year, a further 16% will see their bills increase by 15% or less. That is three quarters of the typical retail, hospitality and leisure



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businesses, on your high street in Basingstoke or elsewhere, seeing their bills flat or falling, or going up by 15% or less.

Of course, there are businesses that have seen significant changes in their rateable values. Often, Members of Parliament will raise those. I have seen big changes—changes of more than 100%, say. I did check this in advance of appearing before the Committee, and only 2% of businesses—11,000 or so of the 767,000—are seeing rateable value increases of more than 100%. For ones like that at the edge of the distribution, as it were, which are seeing the largest increases, that is where the caps that we announced at the Budget came in.

The crucial thing we did, which was an active decision because we knew that the changes to rateable values were coming down the track, was change the supporting small business scheme so that the caps that we put in the system apply from the relief that is currently being received by businesses. It was not like that before; that is a change that we made to system. Lots of these RHL businesses will currently be relieved at 40%, and the caps jump off from that 40% rather than pushing them up to what their full bill would have been and then capping them.

Q35 Dame Siobhain McDonagh: I am really lucky, Minister, because I was born and brought up in my constituency and I have seen the changes in my high street. I live in a very suburban area; I live opposite Kevin Godding, who owns Colliers Wood's Coffee in the Wood, so he was able to put a briefing about his business rates through my letterbox late last night. His comments and those of other small businesses in our high street make me think about the modelling you and the Treasury see when making decisions.

HMRC came and did these data dumps—I think that is the right phrase. Personally, if you talk to me about £34 billion or £35 billion, I cannot visualise that. But if I hear that Kevin's rateable value is going up from £12,500 to £15,500, I can think, "God, yeah, that is about a 25% increase." If I know the increase will be capped at £800, I am still thinking that £800 is a lot in one go for a small coffee shop. Then you think about the increase in the cost of materials, in employer national insurance and in the living wage—which we would all think is great. How does one small business, in difficult times, meet all those increases? Do you get specific businesses and see what the complete impact is of the proposed increases before you make them?

Dan Tomlinson: Because of taxpayer confidentiality we are not allowed to ask about specific individual businesses—and it would not be right for me to do it—but we get a really comprehensive set of figures from the VOA, analysed by the officials at HMRC, which will say, for example, "Minister, this many businesses will come into the business rates system for the first time." I think that that is what the business in your constituency is experiencing. It sounds like you are saying that it was valued at less than the threshold to come in and has now come into the system.

Dame Siobhain McDonagh: Just under, yes.

Dan Tomlinson: Because we knew that businesses would be coming into the system for the first time, we introduced these cash caps at £800 each year. Even if, say, a business is coming in and its new rateable value will mean that its business rates bill is, let's say, £10,000—if it is coming in for the first time and that is what its full bill would be—this year its bill would be capped at £800, next year it would be capped at £1,600, the year after £2,400—

Q36 **Dame Siobhain McDonagh:** Can I just clarify that that is the increase, not the total bill?

Dan Tomlinson: I do not want to comment in too much detail on the specific business, because I do not know the details—

Chair: We appreciate that.

Dame Siobhain McDonagh: My understanding is that that is an increase; you can have your business rates increased by up to £800. The original figure—what he pays this year—is £509, so that plus £800 is £1,309. That is not a big sum on its own, but it represents a 157% increase. I appreciate that you are worried about confidentiality, but my point is do you look at, "If Mr A runs business B on a suburban high street, this is the impact of all our changes"?

Dan Tomlinson: One of the things—it may be helpful for Helen to come in in a second—is that, for example, we know that only 1% of retail hospitality and leisure properties are seeing their bill go up by more than 100% this year. The shop in your constituency that you are referring to is a relative outlier, because only 1% of businesses are seeing their bills go up by more than 100% this year, if they are not increasing from zero.

We have to design the system as a whole for the changes that are taking place across the whole country for every business. If we were to introduce changes to the system to protect businesses such as that one from seeing, say, any increases, the additional cost—the additional borrowing that the Government would have to do—would be quite significant. What we tried to do instead was to come forward with a package that will cap the increases for any business, either at £800 if they are paying relatively little at the moment, or by 5%, 15% or 30%.

I do not know whether Helen has anything to add.

Q37 **Dame Siobhain McDonagh:** I do not want to queer the pitch of our next questions, but it is a holistic thing. A small business does not just consider business rates; it considers what its total costs are. When you make these decisions, do you know what the potential total cost of the whole thing is, and whether these businesses can keep going?

Dan Tomlinson: Of course, in the run-up to the Budget we considered the fact that the independent Low Pay Commission had come forward with



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its recommendations on the national living wage, and the Government's decision was to accept those.

I am aware, through representations from Members of Parliament and from businesses and the business community, that one of the challenges that businesses face is the increase in energy costs, which took place in 2022, and many are still having to grapple with that.

One of the things that we want to do, and I was glad to announce this in late January, is to work across Government—the Home Office, MHCLG, the Department for Business and Trade, and Treasury—through the high streets strategy that we have announced. That way, we can act—not just the officials and the Ministers in the Treasury in the run-up to the Budget, but across the whole of Government, with a range of Departments feeding in—and look at the pressures and strains facing high street businesses, and consider what more we can do to support them in a whole range of areas.

You are right that there are a whole range of things that are challenging for the high street, and I talked about that in the statement. It is not just about changes in costs, either. There are big-picture, long-term changes in spending habits whereby fewer people are popping out to the shop and more are buying things online. Those are some of the things that we want to step back and look at in the round through the high streets strategy.

Q38 Chair: What is the rough timetable for that?

Dan Tomlinson: I expect that we will publish our high streets strategy before the Budget this year.

Q39 Chair: So that MPs also have time to feed into that. There is a bakery on my patch that I went to visit the other week, which is taking two to three days to raise the same amount of money that it did in a day a year ago. That is the challenge, and that example is a good way of describing the challenges that—

Dan Tomlinson: It is a big, long-term change.

Dame Siobhain McDonagh: I am not going across the road and telling Kevin that he's an outlier.

Q40 Chair: I think, Minister, that you are going to receive invitations from members of this Committee to visit their constituency high streets. We look forward to greeting you on those visits. I would advise you to go to Mitcham and Morden first—that would make your life a lot easier.

Dan Tomlinson: Can I just add one thing? One of the reasons why businesses will see their bills go up is that they are doing really well and performing really well. That goes back to the point about the way that pubs, in particular, are valued. If their takings increase, their bills increase and their business rates bills increase, which is a challenge for them. That is why we want to take this look at how they are valued, and how hotels are valued too, because that is done in a similar way. It is because of those challenges.



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Chair: You have suddenly set everyone off and they want to come in. We may bleed over by five minutes on time.

- Q41 **John Grady:** I have just one follow-up question on the logic behind that. Obviously, corporation tax is taxed on profit, but are rates not taxed on turnover? There is a distinction between the two.

Dan Tomlinson: Yes. The rates for pubs, for example, are determined broadly based on their turnover. There are some adjustments, which I mentioned earlier. The rates for shops or restaurants are not based on their turnover; they are based on their floor space and a methodology that the VOA sets out, which you can all read in the relevant guides.

- Q42 **Chair:** Just to be clear, is it that pubs have a unique role in British culture and that is why they should be treated differently, or is it because of the turnover model of valuation?

Dan Tomlinson: Pubs definitely have a unique role in British culture—

- Q43 **Chair:** Is that why the decision was made, or is it about the turnover point?

Dan Tomlinson: The key technical driving force for the change was the conversations we had with the sector after the Budget about the way they are valued. We in the Treasury made an assessment that we wanted to look at that again and in full. That is why we came forward with the package of support.

Chair: So the message is lobby hard and you get a result.

Dame Siobhain McDonagh: Be better organised—join a trade union.

Chair: I think Dame Siobhain is sharpening her campaign axe as we speak.

- Q44 **Yuan Yang:** Minister, you have set out several times in your responses to us how the system of business rates taxation is complicated, and you have done a lot of education and online videos explaining the complications. The valuation process falls under HMRC now, with the Valuation Office Agency coming in-house, so all the complication is really under your control as a Minister. By the end of this Parliament, do you aspire to the business rates system being as complicated as it is right now, more complicated, or less?

Dan Tomlinson: There are so many different aspects of it. One of the challenges is that, because we wanted to redesign the system and put those permanently lower multipliers into it, we have now gone from two different multipliers to five. That has added complication.

I would not want to say that, by making it less complicated, I want to reduce the number of tax rates. I think that it is the right long-term reform that small and medium RHL businesses now have a permanently lower tax rate, and that the high value ones have a higher one.

- Q45 **Yuan Yang:** Is the valuation process itself going to stay as complicated as it is right now?



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Dan Tomlinson: It is right that, in part, it is quite complicated; this is a hard thing to do. The way that many businesses are valued by the VOA is not determined by politicians or the Government. One of the things—

- Q46 **Yuan Yang:** But the formula—the process itself—is within your remit. You could change it if you wanted to.

Dan Tomlinson: Yes. Specifically, in the way that pubs are valued and through the changes we will consider as part of the review, I want to get to a place where those businesses have a clearer understanding of the underlying formula used to determine their valuations. For shops, restaurants and others, they know what their floor space is, and that is not contested as a formula for valuing it.

To go back to the Chair's point, I do not think that it is a case of lobbying hard. The way that other high street businesses are valued does have broad consent. It is easy to get your head around; it is about floor space. There was a unique challenge for pubs, and we do want to look at that again.

- Q47 **Yuan Yang:** Secondly, over the course of both of our lifetimes, business rates as a proportion of GDP have really fallen. People are shopping in different ways: people are shopping online and our high streets are seeing a transformation as well. Is the system of business rates sustainable? You mentioned the £34 billion that HMRC will collect from business rates this year, but do you see that as a sustainable tax going into the future, or do you think that there is a need for other kinds of taxation to capture where people are shopping now?

Dan Tomlinson: It is definitely something that we should consider. One of the taxes we have is the digital services tax—the 2% charge on the revenues of the largest online platforms—and the Government do not have any plans to change that. That change has been implemented over recent years.

Broadly, our direction of travel—and I have mentioned already that we will see what the fiscal position is at the Budget, and tax changes will be made in the usual way—now that we have the ability for the first time to have different tax rates in the system, is about whether we can set them at an appropriate level to make sure that the tax system is doing what it can to support the businesses on our high street. I totally take the point that there is a real long-term challenge. There have been cost pressures, and we talked about energy prices, but people's shopping habits are changing fundamentally.

- Q48 **Yuan Yang:** So are you considering now how the way people are shopping needs to change the taxation system?

Chair: As part of the high streets review.

Dan Tomlinson: One of the vehicles for considering that will be the big high streets strategy that we are going to do across Government. Our intention, to be clear to the Committee, is not to announce the big fundamental parts of the business rates system as part of the high streets



strategy; I do not think that you would like that, Chair. We will be announcing the changes to the big elements of the tax rate system at the Budget in the usual way. One of the things I am really interested in is the extent to which we can improve the business rates system to reduce the challenges of empty properties on our high streets, and the fact that people use the wrinkles in the business rates system potentially to pay less tax than they should.

Q49 Jim Dickson: Something that significantly affects the Kent economy, and therefore my constituents, is transport across the county. I understand from London St Pancras High Speed—the railway that runs from London, across Kent and over to France and beyond—that its rateable value is increasing from £25 million to £75 million from April this year. It is likely that some of those costs—probably all of them—will be passed on via the train operators to passengers. That is potentially a very serious problem not just for our pledge to keep rail costs down for consumers, but for the work being done to get new operators to run on the high-speed line through Eurotunnel to France.

We want trains to stop at Ebbsfleet and Ashford, where Eurostar has decided it does not want to do that any more. The Good Growth Foundation has calculated that that will generate something like £2.4 billion of growth for Kent and for the UK over five years. Has the VOA warned you of any significant rises for this line and the other pieces of infrastructure, such as the Eurotunnel, which is seeing a big rise as well? If you have been warned, are you concerned about the impact on growth that that might have?

Dan Tomlinson: This is really important. Our large infrastructure businesses and premises are valued using this receipts and expenditure methodology in a similar way to hotels, though in some ways it is complicated. It is similar but distinct to the challenge that pubs are facing.

Because of some of the engagement we had before the Budget on this, we announced at the Budget that we are looking into this and published a consultation. I hope businesses in your patch will engage with the call for evidence that we published. We want to get to a system where large infrastructure businesses see these changes in rateable values and can have more confidence that there will not be big changes at each revaluation and that there can be more stability in the system for them. For some of these companies, they are planning based not on a two-to-three-year time horizon like I small business might, but on a timeline of five 10, 15 or 20 years.

Not to comment on individual taxpayers, but we can all go online and see the changes in rateable values for some of these large infrastructure projects—many, many multiples; not just 100% or 200%, but 300% increases or more. That is the route to getting some long-term certainty for them. In the short term, over the next three years, we have got our caps in the system, which will benefit them, too—30% this year, 25% next year and so on.



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Q50 Jim Dickson: Just quickly, I believe this Government have a very good record of putting investment into infrastructure, and it would be a shame if some of the consequences of that around the ability to use that infrastructure prevented it from contributing to economic growth in the way that the Government would wish it to, as we might see in Kent.

Chair: A big message to take back to the Treasury—growth in Kent.

Dan Tomlinson: We do want to see growth in Kent.

Jim Dickson: Great to hear.

Q51 Chair: Finally, you are, as chair of the board at HMRC, now responsible for the Valuation Office Agency, which of course is being brought into HMRC. We hear regularly from businesses about delays. One example of many is a business in my patch that was suddenly hit with three backdated tax years of business rates and a £50,000 bill.

Similarly, others have said that, when they move into new premises, it takes a while to value them. If it is a shell that they fit out, they get a backdated series of tax bills. The other issue is the length of appeals. What are you doing with the Valuation Office Agency? We have had them in recently. Are there issues that you are looking at there about the length of time it takes to get bills and to get appeals through?

Dan Tomlinson: This is really important. One of my big focuses as Minister is making sure that HMRC's customer service improves. People will often be focused on individuals when they are doing their tax returns, how long they have to wait on the phone or how good our online services are, but with the Valuation Office Agency in particular, it is about making sure that we have clear timelines for responses, that the timelines are as reasonable as they can be, and we are not setting ourselves a target in which it is okay to get back to someone in two years.

Q52 Chair: Have you got enough resource?

Dan Tomlinson: Yes, we have enough resource. I do not think that, at the moment, the challenge with the Valuation Office Agency is a lack of resource. One of the longer-term challenges—I do not know whether you discussed this with my predecessor—was that the independence of the VOA made it a bit more difficult for Ministers to hold it to account.

Q53 Chair: We had this conversation with your predecessor, who was very clear that he was in charge, so it was going to be better. This is a very hands-on approach, Minister; if you are saying that it is going to get better under your watch, we will have you back to discuss the matter in detail.

Dan Tomlinson: Good. There are two things that I would say. One is that it is coming in-house from 1 April; it is not in-house yet. The second important thing—actually, I have forgotten the second important thing.

Q54 Chair: What will the difference be? On 1 April, once you are responsible for the Valuation Office Agency, what will you do differently from the excellent professionals we had in front of us the other week?

Dan Tomlinson: Actually, I have remembered the second thing.

Chair: Okay. Give us the second thing, briefly, and then your answer.

Dan Tomlinson: The second thing is that I want to be really clear that, even though it is coming in-house, the work that it does to value properties will remain fully independent. I want to make that point very clear.

As for the VOA's performance and its ability to get back to businesses as quickly as possible, I will now be having senior staff from the VOA coming in every month, with a performance dashboard that I can share with them.

Q55 **Chair:** Surely they would have done that anyway. Some of us have been Ministers, and we would have called in arm's length bodies to ask them how they were doing, push them to perform and get their metrics every month on how their performance was going. Presumably you were getting that from the VOA anyway.

Dan Tomlinson: Yes.

Q56 **Chair:** So what is actually going to change when it is in-house?

Dan Tomlinson: One thing that will change is that the organisation itself will be managed and overseen by JP Marks, who has been here before you, and by HMRC directly.

Chair: So "management" is your answer.

Dan Tomlinson: Yes. It is much easier and more direct in a line management chain, if there are challenges in a particular part of an organisation, to make sure that culture and performance can change, rather than having a Minister and someone in HMRC in one place and a whole separate organisation in another, without line management and direct oversight.

Chair: We have heard repeatedly from the Treasury that you want to be closer to the action. We will have you back in front of us for a longer session about your work as chair of HMRC and your work as Exchequer Secretary. From what you have just said, I think we may now have a timeline for that.

Thank you very much indeed for your time, Minister. You have repeatedly said that the system is "complicated"—that is your favourite word, Mr Tomlinson. You have also highlighted that reform is to come, but will be incremental rather than revolutionary and will depend on the fiscal situation. It is probably fair to say that this Committee's general view is that a complicated tax is not usually a good tax. We look forward to discussing further with you the changes that are being proposed.

There is no doubt that we will return to the subject, but for today, let me thank Minister Dan Tomlinson and Dr Helen Dickinson of the Treasury very much for their time.