Written evidence submitted by Revo

Introduction

Revo is the leading membership organisation supporting the whole retail property market and representing all stakeholders in physical retailing: occupiers, owners, and local authorities, together with their consultancies. Our role is to be the voice of resilience and evolution in retail places, supporting prosperity throughout the UK. Our vision is to change the shape of retail to create meaningful places fit for 21st century retailing. In so doing, our members plan, create, develop, and operate places and communities throughout the UK's towns and cities for people to live, work and enjoy. We support our members in working with government to deliver shared objectives and overcome barriers to create even more productive and successful places.

We strongly believe that the existing business rates system in England has become disconnected from the realities of modern retail and retail real estate. The current business rates system has not responded effectively to continually evolving consumer and economic trends, not least the rapid growth of online retailing. Since their introduction in 1990, the business rates multiplier has risen significantly from 34.8p to 51.2p per £ of rateable value and a tax rate of over 50% now outstrips other tax rates levied on businesses. The inequitable business rates liabilities resulting from infrequent and delayed revaluations, compounded by the iniquitous downwards transitional phasing, has caused significant pressures on the sector, and is acting as a barrier to investment and business success. In 1990 a tax rate for business rates at 34.8% sat comfortably alongside corporation tax at 35%, but these tax rates have moved in opposite directions and a UBR at 51.2% which is wholly disconnected to business performance, is clearly excessive when compared with Corporation Tax at 19%, which is.

Revo would support an appropriately set and managed tax on retail property but only if this reflects the realities of the sector in the 2020s and falls within a wider, fair, and sustainable taxation system.

Summary of Recommendations

- Abolishing downwards transitional phasing from April 2021 to further support the recovery of the retail sector
- Expansion of the business rates holiday to vacant retail premises to mirror the relief available to occupiers
- Resetting the Uniform Business Rate (UBR) to 30p at the next revaluation and fixing it at this level in order to level the playing field for physical retail
- Introduce annual revaluations from 2023, immediately applying new Rateable Values with no transitional arrangements, in order to allow business rates bills to accurately reflect market movement and to allow occupiers to benefit equitably from an adjustment in business rates payable

- Extending the rates relief on empty retail units to 12 months and introducing a 50% rate relief after this period, to reflect the current and future realities of the retail property market

Business Rates

The current business rates system has not responded effectively to continually evolving consumer and economic trends, not least the rapid growth of online retailing. Online retail has increased its market share from 7.9% in October 2010 to 28.1% in October 2020.[1] **The existing business rates system has not responded to these changes and has become disconnected from the realities of modern retail and retail real estate**.

Since its introduction in 1990, the business rates multiplier has risen relentlessly and now far outstrips other tax rates levied on business. The current UBR multiplier represents a disproportionate fixed cost which is undermining the ability of occupiers and landlords to work collaboratively to agree occupancy costs which enable businesses to succeed and owners to maintain, extend and improve their commercial real estate assets and support regeneration of their communities. **Revo therefore urges the government to reduce the UBR for retail to 30p and to fully consider supplementary tax streams, encompassing online sales, to protect tax revenues over time and rebalance the economy**.

An extension of the business rates holiday beyond March 2021 is a necessity to allow retail time to recover from the severe impact of COVID-19. However, moving forward business rates reliefs should be only need to be the exception, not the norm, of a well-designed system and any necessary reliefs (and supplements) should be specific, and time limited to meet extraordinary circumstances. **The only business rates supplements that should be entertained are those where local businesses have a vote on their introduction**.

Across England, there has been growing disconnect between business rates and rental values as the increasing level of rates has far outstripped rental prices. Business rates in March 2020 were 87% higher than in 2001, whereas retail rents are only 17% higher over the same period – the rates increase therefore being almost 5.1 times greater than the rise in retail rental values.[2] The disconnect becomes more pronounced when comparing Northern England and the Midlands with the South, with the rates rise in the North and Midlands being almost 12.5 times greater than the rise in rental values, compared to 4.1 times greater in the South. **Annual revaluations are needed to reflect the prevailing economic conditions and better match the economic reality**.

Empty property rates are now a fundamentally unfair "tax on failure". They are the only instance in the UK tax system where a tax arises without there being a corresponding receipt out of which to pay it; the equivalent of an individual being required to pay a tax for being unemployed.

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[1] https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi

[2] Research undertaken by Revo in August 2020 looking at rates and rents in England over a 20 year period. Data drawn from the ONS showing the average rateable value for retail properties from 2000 and applying the respective business rates multipliers to calculate the average rates paid across all shops in England over the past 20 years. This data was then compared to the MSCI Quarterly Retail Market Rental Value index over the same period and rebased to 100

Finally and importantly, the requirement for property owners to pay business rates for vacated units after the current three-month relief period presents a considerable financial burden which bears no relation to the length of time required to relet premises in the current highly challenged market. As a result it further prejudices retail property ownership and stymies capital investment. **We recommend extending this relief to 12 months and introducing a 50% relief after this period**.

December 2020