

Written evidence submitted by BIRA (British Independent Retail Association)

BIRA Introduction

The British Independent Retailers Association (BIRA) has been established for more than 120 years and has 4,000 members (with approximately 8,500 stores) throughout the UK. Our core membership is in hardware, fashion, cookware and homeware. We have members ranging from a small health food store to an independent department store and the retail sectors we cover include:

- fashion and accessories
- cards & gifts
- hobby and Craft
- sports
- furniture
- carpets and flooring
- DIY, home décor
- Cookshops
- Bookshops
- coffee shops
- restaurants
- hair and beauty

The breadth and geographical spread of our membership gives BIRA a unique insight into independent retail – both the challenges and the opportunities. Independent retail is an important part of the overall retail sector. All the winners from the Great British High Street Awards (held in January 2020) had independent retailers at their heart – retailers that offer diversity, quality and a genuine connection with the local community.

BIRA is actively engaged with BEIS, the Treasury and HCLG.

BIRA was invited to join the Retail Sector Council in 2019 and has given evidence to various select committees and the Low Pay Commission over the past 18 months.

What are the major long-term pressures on the tax system in the UK, including those arising from changes in working practices, demographics, the environment and other factors? How are these affecting the efficiency of the tax base and the overall level of demand for public services?

Raising tax is essential for government because these tax receipts are used to fund public services such as health, education and defence. However, the tax system in the UK is complicated with many indirect costs to businesses that are associated with complying with the tax code. As smaller businesses have more directives they need to comply with, this puts more pressure on the business, for example independent retailers that are already working at a 3 or 4% margin.

In addition, new industries are replacing older ones – most obviously in retail, but also in estate agency, financial and legal services, retail banking and so on – and this is changing the profile of tax collection. These new firms pay little corporation

tax in relation to their revenue, at least compared to traditional firms, because they make relatively little profit and the profits that they do make are funnelled overseas. They also pay less in business rates because they are generally not housed in expensive town centre locations but instead in a few large warehouses. This often means that the pressure is often on smaller organisations that have physical locations that can't be hidden or adapted because they are reliant on specific footfall.

BIRA therefore believes there is no longer a level playing field between businesses with the pressure on smaller organisations, which will in turn put pressure on the tax system in the UK. The principle of taxing businesses' physical establishment is becoming less appropriate and we believe that the UK Government should migrate taxation away from commercial property to other various measures of economic activity. It would be much less counterproductive. Business rates as a system does not take profitability into consideration meaning that the business may not be able to survive long term to continue paying tax or providing jobs.

What more can the UK do to protect its tax base from erosion as a result of globalisation and technological change, and what further impacts will the coronavirus pandemic have on our tax base?

Globalisation means increasing openness in terms of goods trade but it also means that there is an erosion of some tax bases due to their mobility across national borders. Businesses can choose to invest in any number of countries throughout the world to find the highest rate of return and that businesses will often look for countries that minimise the impact of tax. For example, big digital corporations are winning large amounts of business, displacing or replacing existing firms, but paying little or no tax.

The issue of profits being funnelled out to low-tax countries is best tackled at multinational level as it would necessarily require changes to existing tax cooperation agreements and treaties. The organisation most capable on this front is the Organisation for Economic Cooperation and Development (OECD). The OECD includes 36 of the wealthiest democratic and market-orientated countries. The issue is extremely complicated, and proposals will take time, but recently there has been significant support for the idea of all countries taxing firms where they make sales, rather than where they declare profits.

In the interim other organisations have made attempts at a solution. Attempts were made at the EU level but these were largely blocked by members who rely on the tax that does accrue, as well as the jobs and investments that go along with being the declared headquarters for a firm.

As a last resort, some countries have resorted to individual efforts to online firms as they are seen as a large culprit this type of tax avoidance. For example, France has proposed a 3% levy on the total annual revenue of the largest technology firms and the UK have proposed a 2% levy.¹

¹ <https://www.gov.uk/government/consultations/digital-services-tax-consultation>

One area that could be used as a way of combatting the growth of the large tech firms is Competition Law, which could force the breakup of the tech giants. However, there are significant problems with this, not least that Amazon does not demonstrate to its customers signs of abuse of monopoly power. This would typically reflect in excessive charging, lack of investment and large profits.

Do these pressures need to be met with tax reform, and if so, is this the right time for reform?

We live in unprecedented times and tax will have to rise to fill a £40bn hole in the public finance due to Covid ² .

However, a competitive tax code is important. If a country's tax rate is too high, it will drive investment elsewhere, leading to slower economic growth. In addition, high marginal tax rates can lead to tax avoidance.

With this in mind, imposing tax on small businesses that have less capability to pay, especially at the moment means that the Government needs to think careful around how they obtain these tax receipts. For example, not taking this opportunity to fundamentally move away from business rates would be a mistake.

What overall level of taxation can the economy bear without undesirable or counterproductive harm to economic growth?

It is worth reiterating that BIRA members want to contribute the tax income of the UK Government because they understand that tax is necessary for the smooth running of public services.

Our membership is more concerned that there is a level playing field and increased simplicity.

Which areas of the tax system are most in need of reform, and which are best left alone?

BIRA's top priority would be the reformation of business rates.

Business rates are burdensome and complex. They may be based on a property's general rental value, but the reality is that it is currently an opaque system with a long and technical process of valuation, with these valuations often being out of date by the time any changes are implemented. In addition, this taxation alone costs the Government £5.1 in reliefs (not counting Covid support) ³, the £3.6bn cost of the current transitional relief scheme ⁴, £2.8bn in appeals ⁵, £230m in fraud (£230m) and £84m in debt collection ⁶.

² <https://www.theguardian.com/business/2020/nov/26/ifs-says-uk-needs-40bn-of-tax-rises-and-spending-cuts-to-balance-books>

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/883666/NNDR1_2020-21_Stats_release_6_May_2020_update_note.pdf

⁴ https://www.cbi.org.uk/media/5680/12609_business-rates-research_final.pdf

⁵ <https://www.nao.org.uk/wp-content/uploads/2017/03/Planning-for-100-local-retention-of-local-business-rates.pdf>

⁶ <https://www.gov.uk/government/statistics/national-non-domestic-rates-collected-by-councils-in-england-forecast-for-2017-to-2018>

There are also a number of challenges faced by local and national Government including revaluations, identifying the occupancy status of a non-domestic property, its business usage i.e.: charity, retail etc., ensuring that all properties have been valued for rates collection, application of any reliefs due and dealing with appeals. Indeed, every local council has slightly different procedures for small businesses to claim reliefs meaning that a small business may have to spend lengthy amounts of time filling in forms to ensure they fit the criteria. It is therefore no surprise that as far back as 2011, £400m of small business rates relief went unclaimed⁷.

It is also worth noting that in the retail property sector, investments in customer comforts such as installing efficient Air Sourced Heat Pumps, are dissuaded by the possibility of increased business rate liabilities. In our view, the existing business rates system deters property investment rather than encourage it. This is because increases in rates are immediate, whilst the benefits of such investment may not materialise for years. Also, investments in P&M are often necessary just to retain existing business and might not necessarily increase profitability. In those cases, such investments can result in increased rates and reduced profits. This is very contrary to good taxation policy.

BIRA understands that the current pandemic marks a sea change in the way people work and that retail is of course evolving. Most BIRA members operate E-commerce systems to some extent and we anticipate that this trend will continue, adding to the downward pressure on retail floor-space requirements. Nevertheless, we believe that face-to-face retail is a highly valuable component of British social structure as well as a source of employment.

We also believe that retail can continue to play a significant role in levelling up the economy – a stated core strategic aim of this government. High street retailing provides careers, social mobility and social skills. The Covid-19 crisis has revealed the drastic impact on peoples' mental health which results from a lack of human interaction. In a sense, the pandemic has been a proxy for a world without face-to-face retail activities; a world whose arrival should not be hastened by a regressive and outdated tax on accessible physical retail establishments.

However, the disproportionate burden of business rates on the High-Street retail sector has reduced its viability and its usual capacity to level up of the economy, especially in those areas worst affected by the pandemic.

What reforms should be considered in response to the pressures on the tax system?

BIRA does not believe that the Government can just implement one type of new tax in order to replace the income that would be lost by focusing less on business rates. However, as businesses pay a number of different taxes, at different points of their business cycle, we do believe that the tax system can adapt to ensure the Government's tax receipts do not fall.

⁷ <https://smallbusiness.co.uk/smes-losing-out-on-small-business-rate-relief-1622978/>

The Government could look to introduce a land tax. This could be a tax based on the value of non-domestic hereditament and the land upon which it sits (CVT). This would be as opposed to a Land Value Tax which would be determined solely by the value of the land itself, though this could incorporate an element of best use.

An immediate advantage of CVT to retailers is that CVT moves the burden of taxation from the retailer to the property owner. Also, it could potentially simplify the system as it would result in taxation of 800,000 property owners as opposed to the 2,000,000 rateable properties we have now.

For CVT to work for the Treasury, there would have to be a way of establishing the value of properties and a suitable tax system to generate annual income. This would still require valuations across the whole sector and investment in systems, processes and technology would be required to facilitate the transition to CVT. The Treasury would need to assess the investment required to change a complete tax system.

If such a system were to be introduced, BIRA would highly recommend introducing a CVT exemption/ threshold for the smaller properties threshold to encourage small business development and growth.

What is the role of tax reliefs in rebuilding the economy and promoting economic growth and efficiency? Does the current regime of tax reliefs perform this role well?

What are the areas for simplification?

We have answered these questions together.

If the Government is fixed on using property taxes like business rates, there are still changes that need to be made to increase efficiency.

The Government needs to simplify the relief system within business rates longterm, in a similar way that has been introduced to deal with the covid crisis. Rate reductions of any sort should be processed automatically by the local authority without the need for rates payers to apply for a refund.

In addition, the transitional relief scheme should be abolished with a mechanism put in place that ensures rates are not increased or decreased at such an unbalanced manner. The fact that there is a transitional relief scheme in place in the first place where the increases or decreases are capped acknowledges that the changes between bills can be unreasonable and unmanageable.

Is there a role for windfall taxes in the post coronavirus world?

The UK Government has been urged to consider a windfall tax for those businesses which have benefited the most during the COVID-19 pandemic because they have "the broadest shoulders". This is supported by a YouGov poll earlier this year that found more than half of people in the UK would support an excess profits tax on any company which has seen profits rise significantly above their normal levels during the pandemic⁸, especially as by their nature windfall taxes are temporary.

BIRA certainly believes in the principle that those with the broadest shoulders should always bear their load regarding taxes. However, there is a balance and innovation should not be suppressed through excessive tax, especially when the organisation will have contributed to emergency recovery, as has been the case in the Covid crisis situation.

What is the right balance between taxation of work, savings/pensions and wealth?

BIRA's members are by their nature entrepreneurs who have taken risks with their own capital to create businesses. Therefore, we believe that once a fair amount of tax has been taken by the Government, they should be able to enjoy the fruit of their work without worrying that crippling tax increases are going to occur because the Government has a deficit.

What is the best way to tackle tax reform, including what changes might be needed at HMRC to support implementation, and how should the Government consult with stakeholders and parliament?

HMRC needs to maintain their communication channels with organisations affected by tax changes, especially independent companies which will not have the infrastructure in place to immediately comply with new demands.

With this in mind, BIRA would be very keen to participate in any trials or assessments of new tax code that HMRC is planning to implement.

December 2020