Business rates and land value taxation

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Business rates as % of government revenue
**Business rates are not killing the high street**

**High-street retailers are struggling to cope with online competition**
- Higher cost of premises is a big part of that
- Business rates much higher for retailers with a high-street presence

**But the contribution of business rates is less obvious than it may seem**
- Need to account for their effect on rents and property prices

**In the long run, business rates will be mostly reflected in rents**
- Rates reduce what potential tenants are willing to pay; with relatively fixed supply of property, landlords must adjust rents until find tenant
- If business rates weren’t there, correspondingly higher rents would mean premises were still almost as expensive
Caveats

In the short run, changes in business rates will be felt by the occupier
• Rents can take time to adjust
• Though NB there has been no real increase in business rates overall

Even in the long run, there is some effect on occupiers
• Supply of property can respond to some degree

❖ Such evidence as we have supports the theory to a remarkable degree
“The property tax is, economically speaking, a combination of one of the worst taxes – the part that is assessed on real estate improvements...and one of the best taxes – the tax on land or site value”
Replace business rates with a land value tax?

Would be economically efficient
- Remove disincentive to business property development
- Leading to (slightly) more and cheaper property

Would redistribute from owners of less developed land in prime locations to owners of highly developed properties in remote locations

Key practical challenge: valuing land separately from buildings on it
- Need careful study of possible methodologies and other countries’ experiences
- Efficiency gains don’t depend on accuracy – but fairness and scale of appeals might

If not moving to LVT, should we keep the flawed existing property tax?
- Don’t throw land tax baby out with the buildings tax bathwater
- But business rates could be improved
Reforming business rates

Some improvements are happening
• More frequent revaluations
• Move from RPI to CPI indexation

Scope for further improvements(?)
• Even more frequent revaluations?
• Update valuations using local property price indices in between revaluations
• Bills to keep pace with rents rather than inflation?
• End reliefs for vacant land, agricultural property, and maybe low-value properties
• Revisit treatment of plant & machinery in valuations
• Change formal liability from the occupier to the owner?

But a return to greater stability would also be welcome
• Business rates gone from one of the most stable taxes to one of the least
• Why small retail relief 2014–16 and 2019–21 but not before, between, or after?
Conclusions

Business rates are not killing the high street overall
• Though increases for individual firms can be painful in the short run

By deterring property development, business rates do reduce property-intensive activity

Replacing with a land value tax would avoid this
• Are obstacles to accurate valuation prohibitive?

Business rates could also be improved in less radical ways