WELSH RETAIL CONSORTIUM

Business Rates – Investing in the future of Welsh Communities

There is broad consensus that the business rates system is woefully out of date. The current system disincentivises investment in property and this has had a seriously detrimental impact on our town centres and high streets and restricted consumer choice. We believe the time is right to develop a new tax that encourages businesses in Wales to invest and create jobs, supports the regeneration of communities, serves consumers well and ensures a stable and equitable tax contribution from business to Government.

Retail pays approximately a quarter of all business rates in Wales contributing over £237 million to the non-domestic ratings pool. Total Wales business rates take is £910 million.

When business rates were introduced in 1990 the rate was set at 34.8 per cent but the average of the rates at each of the last revaluations is 42.1 per cent. The current rate in Wales is 47.3 per cent.

An increasing proportion of business taxation is therefore contributed through a fixed tax which, unlike other taxes, does not vary to reflect business profitability, ability to pay or broader economic conditions.

Across the UK every one per cent change in the vacancy rate is 50,000 jobs. Our high streets are seeing increases in vacancy rates which currently stand at over 14%. Fifty per cent of leases are up for renewal in the next three years.

For every £1 in corporation tax retailers pay £2.31 in business rates, compared to £1 to 44p for other industries. If rates had grown in line with RPI over the last decade they would now be £2bn pa lower.

It is important for the Welsh Government to ensure that business rates reform, including retention or expansion of reliefs does not add unnecessary cost and complexity upon full devolution in April 2015.

We have the opportunity to show that Wales is 'Open for Business' by taking an innovative approach to our rates system, one which is an investment enabler rather than one that penalises growth and job creation.

Avoid unnecessary and counter-productive sectoral supplements

Targeting a single part of a single sector inevitably sends out the wrong signals to existing and potential investors. Any such proposals are short-sighted and counter-productive and should be avoided by the Welsh Government. Wales should avoid the self-inflicted damage that Scotland (£35m a year) and Northern Ireland (£7m a year) have got themselves into with their larger retailer levies.

Inflation linked uplifts must be addressed

The WRC encourages the Welsh Government to review annual RPI Uplifts and switch to a more proportionate measure of inflation which better reflects the economic conditions faced by retailers, such as CPI.

Local Incentivisation

WRC supports business rate reforms which will give local authorities greater responsibility for their finances including initiatives that are designed to give local authorities greater incentives to raise the finance they need through economic growth and investment. However, consistency in approaches across local authorities is important meaning it is both sensible and practical for the poundage rate to be set centrally. The temptation to increase business rates to make up for budget shortfalls may be tempting for some local authorities, which could have harmful impacts on local business and employment. ***Incentivisation must encourage genuine business growth***

Local authority independence must not be merely an exercise in revenue maximisation, where local authorities take a heavy handed and punitive approach to rates enforcement while doing little to grow their business base. The basic structure of reform should ensure any growth in business rates within a borough should help stimulate further growth in the form of key investments.

Small Business Rates Relief

The WRC supports the principle behind the original SBRR scheme which was designed to counter the disproportionately high impact that business rates have on small businesses. However, the WRC is keen to ensure that the SBRR scheme is appropriately and sustainably funded and does not add additional costs to non-qualifying businesses.

It is our recommendation that following full devolution a fundamental review of rates is agreed, with the aim of unleashing investment and creating jobs, enabling successful re-invention of our high streets, creating a 21st century competitive tax system and to support other industrial investment.

Our 4 Principles for fundamental reform

1. A reduced burden that will drive positive business investment and support economic growth
2. The yield from the tax should rise and fall in line with the underlying measure
3. Business rates should be more equitably distributed to take account of different industry contributions to the economy
4. The system should include incentives to drive positive behaviours