HM Treasury Fundamental Review of Business Rates 2020 – REA Response to Questions 1 - 9

***Note:** This is our introduction and response to Questions 1 – 9 on Reliefs and the Multiplier only. The remainder of the response will be submitted for the second deadline of 31st October.*

Introduction and Summary of Response

The Association for Renewable Energy & Clean Technology (REA) is pleased to submit this response to the above consultation. The REA represents a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, organic recyclers, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are over 500 corporate members of the REA, making it the largest renewable energy trade association in the UK.

The REA welcomes this Fundamental Review of Business Rates as a promised opportunity to reform the business rates system so that it can support the development of a decarbonising economy.

In this consultation response we note that:

- We broadly support a simplification of the reliefs system in a way that promotes decarbonisation.
- We ask that to support businesses wishing to decarbonise, the Government removes renewables and clean technology from the Plants and Machinery (P&M) Order.
- We recommend a reduction and freeze on the Uniform Business Rate (UBR) multiplier for the duration of each rating list, to ensure a predictable and supportive business rates system, at a time when businesses are facing extreme uncertainty.
- Finally, we also support the proposals to increase the frequency of revaluations, which will enable a better reflection of changing economic environments in the future.

These measures should be introduced as an effective way to promote decarbonisation and help the UK meet its Net Zero target by 2050, as required by UK law. It is worth noting that around 80% of UK buildings that will be around in 2050 have already been built, and 10% of our annual UK emissions come from heating buildings alone.[1] The measures listed above are a simple way to 'kill two birds with one stone' – firstly, by supporting businesses at a time of need, enabling them to take action themselves to reduce their carbon footprints, and, secondly, by furthering our national decarbonisation targets.

3.1 Reliefs

[1] https://www.ukgbc.org/climate-change/

1. How well do current reliefs and exemptions deliver their intended outcomes and satisfy the principles of good tax design? What changes would you suggest to the system?

Improvements could be made to the reliefs system and the administration of reliefs. The number of reliefs, and the fashion with which they have been introduced, has made the available reliefs confusing and administratively burdensome to apply. This is especially true where reliefs are administered through Local Authorities rather then automatically by central government. This in turn damages the effectiveness of the relief as those unable to navigate the business rate system, such as SMEs who lack resources to do so, are also most likely to miss out on the available support.

2. How can reliefs be targeted more effectively? How can reliefs and their administration be simplified?

In summary, our response supports:

- Simplification of the relief system, with clarified aims, including to support decarbonisation.
- Removal of renewable energy and clean technology from the Plant and Machinery order to facilitate the Government's Net Zero 2050 commitment and unlock investment in renewables and clean technology, increasing tax revenue.
- Introduce the Business Growth Accelerator, as seen in Scotland, in England and Wales, which provides 18-month relief on new investments.

A simplification of the relief system would be welcome, with clear aims for the reliefs established. This should include reliefs specifically designed around the decarbonisation of the UK economy and supporting business growth, incentivising business to install renewable energy and clean technology systems to meet their energy needs.

Firstly, to support the transition to renewable energy and clean technology, amendments need to be made to the Plant and Machinery Order to remove the distortion in value between self-consumption and export only sites. This is particularly pertinent for roof top solar projects and is having further impact on other onsite renewable technologies include energy storage, renewable heat technologies and EV charging infrastructure. There have been high-profile instances (such as Lidl in 2020, which saw business rates rise by 528%, and schools with solar panel installations) of this distortion penalising businesses trying to move towards a sustainable business model, and disincentivises other businesses from planning to be more sustainable.

Given the Government's commitment to net zero emissions and the Treasury Test all renewable energy and clean technologies (including organic recycling machinery) should be removed from the rateable list and/or provided relief. This should also include consideration of the transport sector and farm machinery, where those using renewable transport fuels or electricity should not be rateable. There is an urgent need to increase the installation of renewable energy and clean technologies at commercial premises, including energy efficiency measures. The Coronavirus crisis will have a significantly negative impact on the capacity of the average business to make long-term investments that are supplementary to their core business model.

A relief is therefore necessary to incentivise the installation of on on-site renewable generation technologies, storage system and renewable heating systems within businesses. Similarly, it will also enable the continued deployment of larger scale renewable projects including anaerobic digestion, organic recycling, wind, bioenergy projects and large-scale solar projects. In one move, this measure would help to bolster clean industries, incentivise decarbonisation, support green jobs and help businesses make energy cost savings.

This would also be a progressive tax measure, if installations rise due to a relief, then the Government will recoup tax revenue through a larger number of renewable energy companies and taxable projects resulting in higher corporation tax and VAT revenue, as such the relief can be expected to be cost neutral to Government.

Business rate relief for renewables and clean technologies also helps rationalise climate policy intent across Whitehall. As it stands, support mechanisms such as the Renewable Heat Incentive, Contracts for Difference and Feed in Tariff are provided by BEIS, only for this cost support to be undermined by heightened business rate liabilities. This becomes a costly way of recycling public spending through Government departments rather than helping to build industries needed for decarbonisation.

Investments in renewables and decentralised energy infrastructure should be supported. A similar scheme to the Business Growth accelerator, as introduced in Scotland, should be introduced in England and Wales. This grants 18 months' business rate relief on new investment from the date the building/asset is completed and this should be extended to explicitly include renewable and clean technology improvements. This could significantly help the deployment of new renewable and clean technology projects.

Furthermore, a 50% 'mineral extraction' rates exemption applies in Scotland to landfill extraction projects, this should be extended to England and Wales to support renewable energy production from landfill gas.

3. What evidence is there on the capitalisation of business rates and business rates reliefs into rents over time? What does any evidence mean for the design of rates reliefs and business rates more broadly?

No response is submitted.

4. What role should local authorities have in determining business rates reliefs and exemptions? Should reliefs and exemptions be set by central government or set locally?

Reliefs should primarily be determined by central government, with the possibility of local authorities applying to HM Treasury to introduce regional reliefs to help incentivise the growth of specific industry hubs, for example around renewable and clean technologies. However, any relief brought in must be applied automatically and should not be dependent on any application process by the businesses within that local authority. All reliefs should be funded by central Government to avoid local authorities having to apply reliefs at the cost to their own limited budgets.

5. Are you aware of ratepayers misusing tax reliefs or other means to avoid paying their full business rates liability? What could be done to tackle this?

No response is submitted.

3.2 The business rates multiplier

6. What are your views on how the business rates multiplier is set annually and at revaluations?

The Universal Business Rate (UBR) multiplier should be reduced and frozen for the duration of each rating list. The tax rate should be fixed, and more frequent revaluation introduced to allow the rating system to be more responsive to changing economic circumstances. This would simplify the business rate system making it easier for businesses to be more confident in estimating their tax liability and reduce the number of rating increase surprises.

We encourage the Treasury to closely consider the evidence supplied by Tax Consultants and REA Member, Gerald Eve, in response to this consultation and further supports the case for lowering and freezing the UBR.

7. How could the multiplier be set in future to ensure the sustainability of public finances and support growth and productivity? What would the impact of any proposed changes be on the level of the multiplier and revenue from business rates over time?

In summary of the response outlined below, we argue:

- The UBR should be frozen for the duration of each rating list to avoid the tax intake going higher than inflation.
- More frequent revaluations will help ensure tax revenue remains stable and provide a simpler system for businesses to understand.
- A frozen UBR and removing renewable energy and clean technology from the Parts & Machinery Order will stimulate investment in renewable energy and clean technology and improve investor confidence.
- Increased private investment in onsite renewable generation and clean technology will ultimately increase Government tax revenue over time, making up for the initial fall, and supporting the creation of stable jobs at a range of skill levels.

- Other building occupiers have recently been given sources of Government support to improve energy efficiency through the Green Homes Grant, giving businesses a similar level of support will help businesses to decarbonise at a time when many are under financial pressure.

The Treasury Select Committee inquiry highlighted how business rate revenue has outpaced inflation since the system introduction.[2] This is despite intentions that the tax take from business rates should remain roughly equal. This must be avoided in future and more transparent check put in place to keep the tax intake in line with inflation.

If, as we recommend, the UBR is frozen, the inflation-related changes in property value will be appropriately considered in the revised rateable value during the revaluation. More frequent revaluations will ensure that changing economic circumstances are considered, while being a simpler system for businesses to navigate. Overall, more frequent revaluations will help to ensure tax revenue remains level as well as providing a simpler system for businesses to understand.

For example, landfill gas extraction operations should be revalued annually, as their power output from extraction, and hence revenue, drops every year, while the rates they are charged remain the same between revaluations.

A frozen UBR will increase investor confidence. Freezing the UBR and removing renewable energy and clean technology from the Parts & Machinery Order will ultimately stimulate investment in these technologies. Businesses increasingly recognise the urgent need to decarbonise and are looking for ways to do so. Greater investment in onsite renewable generation and clean technology will help businesses to save on bills. Investments will also improve the value of properties, thereby increasing revenue through the Stamp Duty Land Tax, VAT, and Land Transaction Tax (in Wales only). Investment will also increase Government revenue by growing renewable and clean technology businesses, leading to increased VAT revenue from sales and installations. This will also create stable jobs at a range of skill levels.

With the Green Homes Grant, Social Housing Decarbonisation Scheme and Public Sector Decarbonisation Scheme all coming forward, SMEs and office-based commercial enterprises are a noticeable decarbonisation policy gap not addressed by policies coming forward. Business rate relief would be a form of support that could be easily applied with no additional administrative burden on the Government, and which would increase Government revenue in the long-term.

8. How should the multiplier and any supplements relate to business rates reliefs? Should these be discrete, or should supplements fund specific reliefs?

No response is submitted.

9. What are your views on introducing additional multipliers that vary by geography, property value, or property type?

[2] https://publications.parliament.uk/pa/cm201919/cmselect/cmtreasy/222/22205.htm#_idTextAnchor006

The focus should be on direct relief measures rather than within the multiplier. This is easier to understand for businesses. Most businesses operate across different areas and regions, property types and/or property values – but many or most businesses, particularly SMEs, have limited resources to put into navigating the fine details of tax legislation. Introducing additional multipliers also increases the potential for double support which could create a unlevel playing field between sectors.