



Association of Accounting Technicians response Business rates: delivering more frequent revaluations

Association of Accounting Technicians response to HMT, Department for Communities and Local Government Valuation Office Agency discussion document “Business rates: delivering more frequent revaluations”

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the HM Treasury, Department for Communities and Local Government, Valuation Office Agency discussion document on “Business rates: delivering more frequent revaluations”, released in March 2016 (the discussion document).
- 1.2. AAT is submitting this response on behalf of our membership and from the perspective of the wider public benefit.
- 1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.
- 1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.
- 1.5. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by our operationally skilled members in practice.

2. Executive summary

- 2.1. AAT strongly believes that more frequent revaluations would lead to a more equitable and improved business rating system (1.5, condoc).
- 2.2. AAT supports the suggestion in the discussion document that revaluations should be undertaken every three years and furthermore that this should be written into legislation (para 1.5, condoc).
- 2.3. AAT notes that shorter periods between revaluations are the most popular option of the vast majority of ratepayers (para 1.5, condoc).
- 2.4. An increased frequency of revaluations will help make business rates fairer and more reflective of changing economic conditions and passing rental values. (1.5, condoc).
- 2.5. The introduction of more frequent revaluations has the potential to deliver the following key benefits to businesses and government:
 - 2.5.1. Business rates will become more responsive to relative changes in rents thereby improving the equality of this property tax (1.5, condoc).

- 2.5.2. Although in the short term revaluations may generate additional appeals, there is a realistic expectation that the volume of appeals can be reduced over the medium term through a combination of the new “Check, Challenge, Appeal” system and the short period between revaluations (3.5-3.7, below), addressing something that has been a major problem in recent years.
 - 2.5.3. The need for a transitional relief scheme will be much reduced or negated completely.
 - 2.5.4. Businesses can expect that their bills will change more often but to a much smaller degree. This will be seen as a welcome reduction in the volatility currently experienced.
 - 2.5.5. More frequent revaluations will generally result in a more acceptable change to rate poundage levels and give rateable occupiers a greater degree of certainty for rate bills.
- 2.6. In terms of delivery the discussion document explores three possible options i.e. more frequent revaluations under the current system, a self assessment option and a formula option to preparing valuations (1.7, condoc).
 - 2.7. Although the consultation does not set out a preferred option, what is clear is that if a self assessment or formula approach is ultimately adopted then the burden for undertaking and submitting property valuations will switch to individual ratepayers. This is a burden that may be resisted by ratepayers, however, the incentive of a bill which is responsive and up to date may be worth the additional burden (3.11, 3.21, 3.22 below).
 - 2.8. The discussion document invites comments and suggestions from stakeholders on challenges that could emerge as a consequence of pursuing one or all of these options. It has to be said that irrespective of which option is ultimately followed, the challenges to address the current massive backlog of appeals, to design and implement new modern digital accounts and systems, to undertake a comprehensive programme of training awareness and upskilling are formidable and will require significant additional resources in order to enable implementation (3.2, below).

3. AAT response to the discussion document on “Business rates: delivering more frequent revaluations”

- 3.1. The following paragraphs detail AAT’s response to the discussion points outlined in the consultation paper. AAT has only listed those questions where it has a comment to make.

Discussion points on the challenges of delivering more frequent revaluations under the current system

- 3.2. AAT believes that there is a high correlation between more frequent revaluations and cost/resources. Irrespective of the model ultimately chosen, a significant increase in resources /cost is inevitable in AAT’s opinion.
- 3.3. Consideration might be given to outsourcing low risk options e.g. appeals, particularly those of a more routine nature.
- 3.4. The speedy implementation of the reformed appeal process (i.e. check, challenge appeal) regime may also be helpful in that it may be possible to utilise this process to help deal with the backlog of current appeals which is a major problem and a barrier to progress on any alternative system.

The effect of more frequent revaluations on appeals/ the increased risk of appeals and how this could be avoided or managed

- 3.5. This discussion point suggests that more frequent revaluations will automatically result in more appeals.
- 3.6. AAT takes a more optimistic view given that there will be more frequent revaluations due to a shorter period between revaluations and the introduction of a new appeal regime coupled with better information from ratepayers.
- 3.7. AAT considers that this will deliver a realistic prospect of a reduction in the volume of appeals in the medium term.

Accessing the skills to deliver more frequent revaluations

- 3.8. In the short term outsourcing of appropriate tasks subject to proper safeguards is a possible option. However, in the medium and longer term an “in house” training programme should be considered.

How the delivery of rating revaluations could be reformed to support more frequent revaluations

- 3.9. The discussion document outlines two further options for reform worthy of consideration although there might well be others. It is recognised however that if an alternative model were to be decided upon, then it would take some years to design, test, consult upon and implement etc. Improved systems using modern technology would also be required and work on continuous improvement should be ongoing.
- 3.10. AAT acknowledges that there is an enormous amount of reform happening at the present time but there is still much to do.

Collection and analysis of information of information to support more frequent revaluations including the role of ratepayers

- 3.11. It is difficult to anticipate any reformed system that will not require an increased input from ratepayers. Whilst this will be resisted by some ratepayers, it is AAT's view that this is a pre-requisite to reform.

Self assessment model

- 3.12. One of the advantages of the self assessment model is that, over recent years the business community has become more familiar with self assessment.
- 3.13. In essence ratepayers would be responsible for assessing their own properties and the Valuation Office Agency (VOA) would publish guidance, offer support and enforce compliance with the regime. Penalties and unspecified new powers would be available to the VOA against businesses filing incorrect information.

The potential compliance regime under self assessment

- 3.14. AAT acknowledges that all systems of self assessment are underpinned by a regime of penalties for non-compliance. Compliance will be ensured through the use of digital tools and a risk based approach to identify non-compliant businesses.
- 3.15. AAT is of the view that a distinction should be drawn between wilful non-compliance and innocent errors.
- 3.16. This is particularly important for SMEs in the early stages of implementing any new system as they may be unfamiliar with the completion of forms and self assessment

systems. It is hoped therefore that should this model be chosen that any penalties will be proportionate and applied sensibly.

The publishing of rental information by the VOA to assist ratepayers when they self assess

- 3.17. It is acknowledged that there are two opposing views on the possible publication of rental information i.e. to publish information or not.
- 3.18. AAT believes in openness and transparency and consequently suggests that publication is the preferred option.
- 3.19. AAT believes that publication will help to make the business rates system fairer, more transparent and easier to understand. It should be noted that information, even if is not published, will still need to be shared with Local Authorities.

The publication of rateable values of all properties under a self assessment system

- 3.20. AAT believes that the VOA should continue to publish a list of rateable values. This will enable ratepayers to make comparisons with other similar properties and help them in their self assessment process.

The role for ratepayers

- 3.21. Undoubtedly under the self assessment model there will be a significant amount of additional effort and responsibility for ratepayers.
- 3.22. AAT's view is that, given the benefits of more frequent and more up to date revaluations that are reflective of changing economic conditions, the additional effort and responsibility is a price worth paying.

Specific issues relating to smaller businesses or other ratepayers for whom self assessment could be particularly challenging

- 3.23. AAT has noted the substantial efforts that were made by HMRC during the implementation of the self- assessment of income tax and believe that these had a positive impact on the implementation process.
- 3.24. Consequently AAT supports the contention that VOA should build on this positive experience to assist SMEs should this process be the preferred option.

Discussion points on a formula approach

- 3.25. AAT understands the attraction of a formula option whereby the government would devise a formula for how various types of property should be assessed with values based on location and property characteristics e.g. size, use.
- 3.26. Ratepayers, who have received guidance, would input the data required by the formula to an online system along with any supporting evidence.
- 3.27. Although the discussion document indicates that the introduction of a formula based system would be challenging to deliver it would nonetheless simplify the valuation process and therefore potentially allow for more frequent valuations.
- 3.28. A major disadvantage of this model is that it moves away from rental market values and rateable values and would therefore be less likely to reflect the individual characteristics of premises.

- 3.29. It is also of concern that in previous consultations and surveys, respondents indicated a preference for retaining individual valuations for each property rather than a banding or zoning approach. Many respondents argued that less individual “broad brush” approaches were likely to be less fair and consequently would lead to more appeals. The formula model might therefore suffer on acceptability grounds.
- 3.30. AAT agrees with the consultation document that the formula model would be easier for the majority of ratepayers to understand and use and would, in addition, give more certainty to Local Authorities in relation to business rate income because of its stability.

The associated move away from a link to market values

- 3.31. The possibility of using a formula approach to valuation is not new but in the past it has not gained much in the way of support.
- 3.32. In AAT’s view the use of a formula fundamentally moves away from the traditional valuation approach to individual properties.
- 3.33. It is additionally AAT’s opinion that, at present, the formula concept is not sufficiently well understood by ratepayers and therefore significant education and training would be required in order to bridge this gap.
- 3.34. A pilot study might be useful to help ratepayers to gain confidence, acceptance and understanding. If these matters were accordingly addressed then ratepayers could make an informed view of the worthiness or otherwise of this option.
- 3.35. In the short term it is AAT’s view that delivery of this option would be difficult. However in the longer term AAT considers that this model should not be discounted entirely as it does offer opportunities for significant savings and efficiencies.

The classes of property that would be suitable for a formula approach

- 3.36. The classes of property that would be suitable for a formula approach are shops, offices, factories and warehouses. Different arrangements may be required for large or specialised premises e.g. utilities.

The factors that would need to be included in the formula beyond class of the property, size of property and location

- 3.37. It is difficult to be precise as to whether additional factors should be incorporated into a suggested formula. AAT agrees that the formula should not be too sophisticated as it will impede understanding and use by ratepayers. It would also be much more difficult for government to maintain.

The balance of efficiency, simplicity and certainty that a formula approach would provide against any desire to retain valuations that take greater account of the individual characteristics of properties

- 3.38. As stated earlier in this response (3.31, above) the idea of a formula approach is not new. However previous consultations and surveys undertaken by various professional business organisations have not found ratepayers in favour.
- 3.39. This may be due to a lack of understanding but moreover may be more due to the belief of ratepayers that rateable values of individual properties are the fairest and most appropriate method for establishing business rates liability.

Implementation for businesses of different sizes

- 3.40. It has been stated in paragraph 4.3 of the discussion document that a separate approach might be needed for large or specialised properties where the application of a formula could be unwieldy. AAT agrees that this is likely to be the case but remains wedded to the principle that the business rate system should be fair and equitable between classes of ratepayers.

4. Conclusion

- 4.1. The discussion document does not set out a preferred option but invites views on improving the current system as well as two alternatives, a self- assessment system and a formula model.
- 4.2. In response AAT does not make a recommendation but instead makes three observations:
- 4.2.1. Firstly there is currently widespread dissatisfaction with some aspects of the current system (1.5-1.6, condoc), and;
- 4.2.2. Secondly the use of a formula has so far not attracted much support. This is because the formula may not totally take into account the individual characteristics of an individual property and may be perceived to be unrelated to the property under consideration. This would be the case if the formula was banded. (3.28, above)
- 4.2.3. Whatever system is ultimately chosen there is much to be done to implement more frequent revaluations. Significant additional resources will be required to implement and maintain the new system. (3.2, above)

5. About AAT

- 5.1. AAT is a professional accountancy body with over 49,800 full and fellow members¹ and 80,900 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 licensed members who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

email: aleem.islan@aat.org.uk and aat@taxpolicyadvice.com

telephone: 020 7397 3088

Aleem Islan
Association of Accounting Technicians
140 Aldersgate Street
London EC1A 4HY

¹ Figures correct as at 31 March 2016