

Non-Domestic Rates (Scotland) Bill

Consultation on Proposed Amendments by the Scottish Greens

7 August 2019

INTRODUCTION

The Non-Domestic Rates (Scotland) Bill was introduced to Parliament on 25 March 2019 and will be debated at Stage 1 in autumn 2019. The Bill arises out of the Barclay Review which was established in 2016 with a remit,

“To make recommendations that seek to enhance and reform the non-domestic rates (also sometimes referred to as business rates) system in Scotland to better support business growth and long term investment and reflect changing market places, whilst still retaining the same level of income to deliver local services upon which businesses rely.”¹

The Barclay Review’s own consultation asked one question,

“How would you re-design the business rates system to better support business and incentivise investment?”²

The Bill implements those recommendations of the Review with which the Scottish Government agree and that require primary legislation together with additional technical measures proposed by Ministers.

The Review was therefore very narrowly focussed and, consequently the Bill is a selection of rather disparate provisions. Importantly, the Bill does not address some fundamental aspects of the Non-Domestic Rates system such as who pays the rate, who sets the rate, who and how reliefs are designed and many other basic elements of a tax system.

The Bill is the first ever primary legislation in the history of devolution dealing with the non-domestic rating system – a system responsible for raising the second largest total revenue of all devolved taxes. As such, it is an opportunity to consider wider reforms to this important taxation regime.

This paper outlines the key proposals from the Scottish Green Party for amendments to be tabled at Stage 2. We would be grateful for your views to inform this process. Please send you comments to andy.wightman.msp@parliament.scot by 20 September 2019.

¹ Scottish Government, 2017, *Report of the Barclay Review of Non-Domestic Rates*, <https://www.gov.scot/publications/report-barclay-review-non-domestic-rates/>

² Scottish Government, 2016, *Barclay Review Of Business Rates in Scotland- Call for Submissions*, <https://www.gov.scot/publications/barclay-review-business-rates-scotland-call-submissions/>

PROPOSALS

1. Return rate-setting in part or whole to local authorities

The rate is currently set by Scottish Ministers following removal from local control in the Local Government Finance Act 1992 through secondary legislation approved by Parliament. Being a negative instrument, it passes into law with no debate unless a motion to annul has been lodged. There is no opportunity to amend the instrument.

The non-domestic rates belong to local government and it is wrong that Councils do not set their own tax rates. Rate setting could be returned completely or there could be a national mandatory rate together with local rates.

2. Include all non-domestic properties and land on the valuation roll

Recommendation 28 of the Barclay review recommends that all non-domestic properties (except public infrastructure) should be included on the Valuation Roll. Currently, there are a range of exemptions for properties that are excluded from the Roll. Thus, we have no information on their value or the cost of the exemption. Bringing these properties onto the Roll will allow greater transparency and their existing exemption from rates can be replaced by a 100% relief.

3. Introduce progressive rates

Currently the non-domestic rate is a flat tax with one rate applicable to all properties regardless of their value. A complex system of reliefs is in place to, for example, provide relief for low value properties under the Small Business Bonus Scheme (SBBS). However, this results in cliff-edge effects and sudden increases in liability following revaluations when a 100% relief may be replaced by full liability as the new valuation exceeds the SBBS threshold.

Progressive rates would be modelled on income tax with a tax-free allowance and progressively higher rates for defined bands of valuation (so, for example, 10% on first £10,000, 25% on next £40,000 and 50% on valuations over £50,000).

4. All ratepayers should pay something

The Barclay Review noted that due to the Small Business Bonus Scheme, many ratepayers now pay nothing at all. The Review noted that in some communities no rates are paid at all and there is a disconnect between the local services being delivered and the properties that benefit from them. This proposal would ensure that all properties on the Roll paid a specified minimum amount (say for example £1000) of rates.

5. Introduce split valuations

Currently, the valuation of properties is based upon the market rental of the property as a whole. Some people argue (The Mirrlees Review for example³) that non-domestic rates should be replaced with a land value tax (LVT) assessed on the value of the site alone and excluding anything constructed upon it.

By introducing split valuations whereby the site and the buildings are valued separately, Councils would have the power to weight the rate more or less on each element. A Council that wished to introduce LVT could weight the rate to apply 100% to the site. No weighting would equate to the current system.

6. Localise reliefs

The non-domestic rating system has a range of complicated reliefs associated with it. These are all set by Scottish Ministers and approved by Parliament. Many Councils, however, would benefit from having the flexibility to design such reliefs to fit their own local circumstances. Currently, Councils have the power under Section 140 of the Community Empowerment (Scotland) Act 2015 to reduce or remit any rate. This proposal would give Councils full flexibility by enabling them to also increase any rate.

7. Transfer liability to owners

Liability to pay non-domestic rates currently lies with the occupiers of properties. In some instances their identity can be difficult to establish due to complex corporate arrangements. The identities of owners, on the other hand is registered in the Sasines and Land Register. By transferring the rates to owners or by allowing local authorities to do so where they chose to, could ease the administration of the non-domestic rating system.

³ Institute for Fiscal Studies, 2011, *Reforming the Tax System for the 21st Century: The Mirrlees Review*, <https://www.ifs.org.uk/publications/mirrleesreview>