

**HM Treasury fundamental review of business rates: call for evidence**

**Response from ARLA Propertymark and NAEA Propertymark**

**October 2020**

**Background**

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents, representing over 9,500 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.
2. NAEA Propertymark is the UK's leading professional body for estate agency personnel, representing more than 11,000 offices from across the UK property sector. These include residential and commercial sales and lettings, property management, business transfer, auctioneering and land.

**Summary**

- If the UK Government intends to retain business rates, then estate agents and letting agents should receive the business rates relief available to retail premises.
- Under the current system more frequent revaluations, such as annual revaluations could help to alleviate the problem of uncertainty and reduce costs.
- An online sales tax could replace or complement business rates reliefs.
- A nationally led reliefs model would create a more transparent and collaborative system.

**Questions**

**Question 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?**

1. Propertymark does not think that the current reliefs and exemptions deliver their intended outcomes and satisfy the principles of good tax design. The rules and proposals are inconsistent for estate and letting agent businesses. Before the Coronavirus pandemic, despite many estate and letting agents being small businesses occupying high street premises, they were considered to be 'offices' as opposed to 'retail' businesses and were ineligible for the existing and proposed business rates cuts. After lobbying the UK Government and politicians, in March, we welcomed the decision that letting agency offices that closed because of Covid-19 measures to restrict the spread of the virus will be exempted from business rates in 2020–2021. We know of one agent whose rateable value is £15,250 per annum so the exemption will save them £7,600. Furthermore, in September, 85% of our members surveyed agreed that estate agents and letting agents should receive the business rates relief available to retail premises. Extending the relief to estate and letting agent offices

is important to retain and promote growth not only of the sector, but in many towns and cities across the country. Property agents have long been a bedrock of the local high street and in light of recent events, we believe that estate and letting agent business should be able to continue to access the existing and proposed business rates relief available for retail.

2. Maintaining agents with a physical presence on the high street benefits communities in five ways. Firstly, house sellers and Landlords retain a choice of which agency they wish to engage to sell or rent their property. Choice and competition will contribute in the drive to improve standards. Secondly, tenants who rely on their letting agency for property management will retain that vital face to face relationship. This is particularly important for those tenants who may be more vulnerable. Thirdly, high streets remain vibrant with fewer empty shops, encouraging more shops and businesses, and shoppers into the town or local centre, boosting local economies. In addition, we know that real estate activities, including commercial and residential lettings and sales, as well as management, support 240,000 jobs and add £13 billion of value added to the UK economy.<sup>1</sup> Lastly, face to face contact between agent and clients/consumers facilitates agents in making robust judgments around suspicious activity for the purposes of the money laundering regulations. Given these wide-ranging benefits it is important that the high street presence of agents is maintained, and they are included in any high street rates relief.
3. In addition, although not concerning reliefs directly, we think the current revaluation periods do have an impact on the effectiveness of reliefs and exemptions and should be changed. As outlined in the Regeneris Report the five yearly revaluation and the current seven year gap creates uncertainty in future rental returns, as it is very difficult to calculate future business rates costs.<sup>2</sup> The current five year revaluations systems obliges businesses in areas of relative decline to pay too high business rates for too long and prospering businesses to pay too little. To this end, under the current system more frequent revaluations such as annual revaluations could help to alleviate the problem of uncertainty and allow occupiers to pay lower rates.

**Question 2 - How can the reliefs be targeted more effectively? How can reliefs and their administration be simplified?**

4. To target the reliefs more effectively and simplify how they are administered, the UK Government should consider, and review the introduction of an online sales tax to remove business rates reliefs altogether. When asked what the UK Government should introduce as an alternative to the business rates in our survey, the online sales tax scored the most highly. We believe this would have two impacts. Firstly, it would remove the burden from overstretched local authorities. Secondly, it would prevent the problem of 'unfairness' and 'injustice' of some sectors being granted reliefs, while others are not, and it would also ensure the same rules apply to everyone. Currently, there are differing reliefs and therefore different

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<sup>1</sup> <https://www.arla.co.uk/media/1045728/letting-the-market-down-assessing-the-economic-impacts-of-the-proposed-ban-on-letting-agents-fees.pdf>

<sup>2</sup> <https://www.regeneris.co.uk/business-rates-who-pays/>

rules from one local authority to another, whereas an online sales tax could unify all areas, so that business know where they stand. Added to this, it could also prevent the issue of reliefs being capitalised into higher rents given that reliefs would be removed.

5. A level playing field is required because the increased costs associated with operating in the property sector, coupled with liability for business rates that others on the high street are not subject to, are forcing agents to close their public facing high street agencies. For instance, one of our members has told us that the amount they pay in business rates is greater than the annual profit made in a year. To this end, abolishing the current ineffective reliefs system and replacing it with an online sales tax would help to ensure the long-term survival of the high street. Bricks-and-mortar retailers paid £7,168 million in business rates for 2018-19, or 2.3% of their retail sales. Whereas, online retailers only paid £457 million (6% of total retail rates bill), around 0.6% of online traders' sales.<sup>3</sup> As is the case for high street retailers, the increase in costs faced by high street agents is compounded by the rise of online agents. Those online agencies face lower costs, squeezing agents with a physical presence on the high street out of the market. Should estate and letting agents leave the high street, not only will communities be faced with more empty premises and lack of services, but tenants who rely on agents to manage their properties will lose vital relationships. Furthermore, the opportunity for face to face contact facilitates agents in making robust judgments around suspicious activity for the purposes of the money laundering regulations.

**Question 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?**

6. Business rates cuts are 'capitalised' into higher rents over time, benefitting landlords rather than rate payers. As a result, the burden falls on occupiers, and this is an extra cost to business and reduces their ability to invest, and to employ staff. Therefore, short term, time-limited reliefs benefit occupiers as they will not be capitalised into rents as much as long term reliefs. Furthermore, as a principle of fairness, if the business rates system is kept by the UK Government, then the reliefs available to retail should be applicable to estate and letting agent offices. To this end, the UK Government should consider more time limited reliefs to avoid the capitalisation into rent, or a complete overhaul of the system to ensure long term reliefs are not transformed into higher rents.

**Question 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?**

7. We believe that rates should be set by central government but with three important caveats. Firstly, the setting of reliefs and exemptions should be part of a more collaborative and transparent system in which ratepayers and taxpayers are seen as part of the process of gathering and supplying information for reliefs. Secondly, use more frequent revaluations to

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<sup>3</sup> <https://www.retailresearch.org/future-of-the-high-street.html>

ensure that reliefs are less necessary because occupants will pay lower rates as the frequent revaluations ensure that rates are fair and accurate. Thirdly, local authorities need to do more to improve transparency and help businesses understand and navigate the system. The Netherlands has a model that incorporates these three areas, which in turn has reduced administration costs by more than a quarter. For instance, it is estimated that the total cost of administering business rates is around £204 million, or £115 per property. Through annual revaluations the Netherlands has been able to reduce administration costs by 28% per year which generates a Government saving of around £56 million a year.<sup>4</sup> In addition to this, the Netherlands has moved to a computerised system, allowing them to value properties at a reduced cost, with less administration.

**Question 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?**

8. We are not aware of ratepayers misusing tax reliefs or other means to avoid paying their full business rates liability. However, a move to an online tax system could eliminate the problem given that there would be no reliefs anymore.

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<sup>4</sup> <https://www.bpf.org.uk/sites/default/files/resources/Better-Rates-for-Better-Business-full-report.pdf>