

Supporting Business, Promoting Growth

Scottish Government response

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Ministerial Foreword



Taxation plays a number of important roles in a modern economy. It funds expenditure on vital public services, is used to help tackle inequalities, influence behaviours, and supports growth, employment and a diversified industrial base.

The Scottish Government believes that it is best when decisions about Scotland are taken in Scotland.

That principle is highlighted by the actions we have already taken through business (or non-domestic) rates, which are one of the few economic levers available to the Scottish Government to support business and drive sustainable economic growth. This Government has already used these limited powers to good effect, through maintaining parity with the English poundage rate and creating and maintaining the most generous business rates relief package available anywhere in the United Kingdom, worth over £560 million to Scottish business in the present financial year.

We want to secure Scotland's place as the most attractive place to do business in Europe with a local tax system that supports and encourages businesses to set up and grow, yet at the same time raises sufficient revenue to deliver good quality services to those same businesses.

To that end, the Scottish Government has committed to use the period until the next revaluation in 2017 to conduct a thorough and comprehensive review of the whole business rates system. That process began with a consultation paper "Supporting Business, Promoting Growth" which ran from 27 November 2012 to 22 February 2013.

The actions set out in this Scottish Government response to the consultation paper details the initial steps we will take to reform the business rates system. Our approach will ensure all reforms are in place by the next revaluation in 2017, delivering a fairer, simpler and more efficient business rates system.

I am grateful to all who took the time to respond and offer their suggestions for reform. Many positive and constructive suggestions were put forward during the consultation period and we have reflected on these and our continuous, wider engagement with the business community in developing a series of actions.

Individual responses and an independent summary of those have now been published and can be read alongside this response.

Reform is a continual process and this Government will take forward the reforms outlined in this response over the period up to the next revaluation in 2017.

Finally, this report represents the start of our programme of rates reform and I look forward to hearing your views as we progress.

A handwritten signature in black ink, appearing to read 'Derek Mackay', written in a cursive style.

Derek Mackay MSP
Minister for Local Government and Planning

Supporting Business, Promoting Growth - Background

The Scottish Government consultation on rates reform, “Supporting Business, Promoting Growth” ran from 27 November 2012 to 22 February 2013 (although late responses were accepted up to 8 March 2013).

You can view the consultation paper at

<http://www.scotland.gov.uk/Publications/2012/11/6551>

The paper asked twelve questions, including on the appropriateness of reliefs and exemptions, local reliefs, the way current reliefs are funded and reported, transitional relief, the valuation appeals system, transparency and tax avoidance. It also sought any further views on areas not specifically covered by the questions.

This paper is not meant to capture and comment on every suggestion made in every response, but to rather outline the key actions that the Scottish Government will take as a direct result of the consultation.

In total 93 responses were received from a range of interests including professional bodies, individual ratepayers and their representative bodies, councils and advisory bodies.

At the end of the formal consultation period, the Scottish Government commissioned independent, external analysis of all of the responses received and this has been published at www.scotland.gov.uk on 4 September 2013. This independent summary analysis report can be viewed along with the full text of individual responses, which (where consent to publish was given) can be found at <http://www.scotland.gov.uk/Publications/2013/04/5388>

The independent analysis, along with the full contents of each individual response (regardless of whether consent to publish was given) were given full consideration by the Scottish Government in formulating this response.

All respondents were asked to consider the cost impact of their suggestions with a view to ensuring reform is, as a minimum, cost neutral. Many individual ratepayers made constructive suggestions as to how the rates system could be improved, although to action all suggestions would mean a reduction in the level of funding available to support service provision, including to businesses.

In response to some questions no clear view emerged or conflicting opinions were expressed. In these cases a balanced judgement had to be made by the Scottish Government on the appropriate course of action. Where the complexity of the issue merits further engagement and/ or consultation, further discussion and debate will take place.

Scottish Government has identified several areas for action to be taken forward up to and including the 2017 revaluation and these are outlined below.

Many responses made similar points in responses to different questions or in supplementary information supplied to accompany their response, so the actions that Scottish Government will take have been grouped into themes, broadly grouped in the order in which they appeared in the consultation paper.

Scottish Government Business Rates Consultation outcomes and action plan

- We will write in 2013 to every business in Scotland based in a property that may be entitled to the Small Business Bonus Scheme (SBBS) to highlight that they may benefit.
- We will work with stakeholders to ensure there is a more consistent approach across Scotland.
- We will review rates relief application processes to ensure they are simple, transparent and streamlined.
- We will undertake a review of the recent changes to empty property relief in 2015.
- All rates reliefs will be kept under regular review to ensure that benefit is directed where it is most needed.
- All current exemptions provided, including to some key sectors such as agriculture, will be retained.
- The Scottish Government will create a power to allow councils to respond better to local need and create their own localised relief schemes.
- We will continue the Small Business Bonus Scheme (SBBS) until 2016 and consider which relief thresholds can be established on a longer term basis ahead of the 2017 review.
- The way all current reliefs are funded will be maintained.
- The way that relief to different sectors is recorded will be maintained.
- The Scottish Government will consult on transitional relief ahead of the next revaluation in 2017.
- New rateable values will be made available to ratepayers as far in advance of the 2017 revaluation as possible.

- A separate review of the appeals system will begin in 2014, concluding in time for the next revaluation in 2017.
- We will work jointly with others to ensure businesses have access to clear, concise information about valuations, rateable values, rates bills and reliefs.
- We will take all possible measures to prevent tax avoidance and ensure rates are paid.
- Where possible, loopholes and avoidance tactics will be closed.
- Powers for debt recovery will be strengthened and streamlined.
- The current property based tax system will be retained.
- The Scottish Government confirms that the next rates revaluation will take effect on 1 April 2017.
- The national poundage will continue to be set at the same level as in England. There will be no new local poundage supplements.

Detail on themes emerging from independent analysis of consultation responses and Scottish Government action(s) for each

National Reliefs & Exemptions, including transitional relief

Questions 1 and 1a of the consultation paper asked for views on whether the current rate reliefs, worth £560 million this year, were appropriate and sought suggestions on how these could be refined and how those refinements could be funded.

The independent analysis captured various comments on reliefs, not all of which were in agreement. One common theme was that many highlighted the importance that Scottish Government funded reliefs can play in supporting business, particularly through the Small Business Bonus Scheme (SBBS).

Empty property relief reform was noted in many responses, although the changes proposed by the Scottish Government had not yet come into effect.

The analysis notes that Small Business Bonus was mentioned in several responses and over 89,000 Scottish business premises currently benefit from the Small Business Bonus. We will ensure that the scheme is promoted and everyone who is potentially entitled to Small Business Bonus, but isn't claiming, is made aware of it.

Mixed views were expressed on charity and disabled person reliefs particularly around charity shops, while Rural and Religious rates relief were generally supported. Enterprise Areas were also supported and there was a suggestion that town centres could benefit from similar, but distinct arrangements. This has also been raised separately as part of the Scottish Government Town Centre Review.

There were also general comments made, captured in the analysis, that there are a large number of reliefs and that the system has become complex and confusing for some.

Finally, the analysis noted comments on various exemptions, particularly for agricultural land, although views were mixed.

This presents the Scottish Government with an opportunity to work with business organisations, professional bodies and Councils to better support ratepayers e.g. by raising awareness of all reliefs, improving understanding of how all reliefs are awarded and by simplification of the application processes.

We will address the above points in the following ways.

Actions

1. We will write to every business in Scotland based in a property that may be entitled to receive a discount through SBBS to highlight that they may benefit from this.
2. We will work with stakeholders on establishing a more consistent approach across Scotland. One example will be to ensure there is more information available on all reliefs and the basis on which they are awarded. This will include working with councils and professional bodies to produce new guidance on reliefs and make this available to businesses so that they can understand the system.
3. We will review application processes so that they are simple, transparent and streamlined.
4. We will undertake a review of the changes to empty property relief, which had not yet come into force at the time of consultation, to establish the impact based on evidence. This will take place in 2015, allowing sufficient time to establish if the policy has had the intended effect.
5. All rates reliefs will be kept under regular review to ensure that benefit is directed where it is most needed.
6. Although views were mixed, the Scottish Government has on balance decided that all current exemptions provided, including to agriculture, should be retained.

Local reliefs

Questions 2 and 2a of “Supporting Business, Promoting Growth” asked questions about whether current rate reliefs, which are all managed centrally, offered sufficient scope for local flexibility, or whether business could benefit from local discretion.

The creation of a new power for local Councils to offer their own localised discounts on business rates was viewed by most consultees as a positive step, including by a majority of Councils themselves. Such a power could, for example, be used to attract new or support existing businesses.

The Scottish Government accepts that such a power would be a useful tool to allow local needs to be better supported, whilst still setting a national framework of reliefs and ensuring the poundage remains uniform across Scotland.

Action

7. The Scottish Government will create a new power at the earliest opportunity to allow Councils to respond better to local need and create their own localised relief scheme(s). This power will sit alongside the national framework of Scottish Government reliefs, for example the Small Business Bonus Scheme, and all ratepayers will continue to benefit from a uniform national poundage rate.

Confirmation of relief thresholds

Question 3 related to confirmation of thresholds for reliefs and asked whether reliefs, some of which are currently confirmed annually, should be fixed in place for longer periods.

As the independent analysis showed, the majority of those who responded to this question gave positive responses across all groups. There was broad agreement that confirmation of relief thresholds for a number of years in advance would be a positive step for business as this would allow them certainty and better forward planning and budgeting.

The Scottish Government agrees that certainty, wherever possible, is an important principle in taxation.

Action

8. To allow better future financial planning, we will reaffirm our commitment to continue the SBBS until 2016 and consider which relief thresholds can be established on a longer term basis ahead of the 2017 revaluation.

Funding of reliefs

Question 4 of the consultation paper asked about funding arrangements for reliefs. Analysis found that the majority felt the present funding arrangements for reliefs should remain in place.

Question 5 asked about whether relief to the public sector should be treated differently, or if current arrangements were appropriate. Again analysis showed that the majority felt that no change was needed to current arrangements.

Action

9. The way all current reliefs are funded will be maintained.
10. The way that relief to different sectors is recorded will be maintained.

Transitional Relief

Transitional relief was addressed separately in Question 7 of the consultation paper, although several responses linked responses on all reliefs together.

Analysis indicates that consultation responses expressed views both in favour and against transitional relief.

Transitional relief is the only relief that is funded entirely by businesses and is used to phase in bill changes at each revaluation (both increases and decreases, so some businesses benefit while others pay more than they would have otherwise done without transitional relief).

At each revaluation, bill changes will vary across different types of business and different geographic areas based on market demands and the full impacts of transitional relief at each future revaluation will not be known until the period immediately preceding that revaluation. A business will need to know not just their new rateable value(s) but also the poundage rate and relief thresholds before they can fully work out the impact on them to understand whether they would gain or lose from transitional relief.

In 2010 the Scottish Government chose not to introduce transitional relief when the evidence showed that it would benefit the public sector at the expense of private sector firms.

For the reasons outlined above, it is not possible to know the outcome and impacts of the 2017 revaluation at this time. We support the view expressed by several respondents that decisions on transitional relief should be taken in consultation with business and the Scottish Government will consult on transitional relief in advance of the 2017 and subsequent revaluations.

On a related point, several respondents also noted that early release of rateable values would help inform businesses better, although noting that this information alone is not sufficient and that the poundage rate and relief thresholds are also necessary to calculate a bill.

Actions

11. The Scottish Government will consult on transitional relief ahead of the next revaluation in 2017. This consultation will allow ratepayers to form a view on the principle of transitional relief based on evidence available at the time on the high level impact on sectors and geographic areas.
12. The Scottish Government will work with Assessors to ensure new rateable values and other information necessary to calculate bills, such as the poundage and relief thresholds, are made available to ratepayers as far in advance of the 2017 revaluation as possible.

Appeals

Questions 8 and 9 sought views of the independent valuation appeals system.

Analysis of responses to the consultation paper acknowledged that there is some dissatisfaction with the current appeal system which many regarded as not fully supportive to business. For example, a common concern was that appeals take too long to be resolved, and this is exacerbated by the large volumes of appeals lodged.

The appeals system is complex and appeals relating to the 2010 revaluations are still being heard and these will progress under current arrangements. However, the Scottish Government is committed to ensuring businesses do not overpay while waiting for an appeal to be heard and so will separately review the appeals system.

We appreciate that the appeals system is a very complex and technical area and so this review will be wide in scope and include a range of relevant bodies and organisations.

Action

1. A separate review of the appeals system will begin in 2014, concluding in time for the next revaluation in 2017, with the aim of establishing a system which resolves appeals faster, ensuring that businesses do not overpay while waiting for an appeal decision.

This wide review will consider a range of issues including options to get values right first time, powers of the Assessor to collect information, wider options to establish rental evidence, the scope to lodge appeals, the timescales for lodging and hearing appeals and exchanges of information, use of electronic means to exchange data and whether a modest fee, linked to rateable value, could apply.

Transparency and Information

Question 10 of the consultation related to transparency and information.

The need for clear, concise information and transparency was a common theme identified by independent analysis. Many businesses felt that clearer, more consistent information should be provided on rates.

Information on rates comes from a variety of sources, including Scottish Government, business organisations, independent Assessors, Councils and other professional bodies and advisors so a collaborative approach is needed.

Action

14. The Scottish Government will work jointly with Councils, Royal Institute of Chartered Surveyors (RICS), Assessors and others to ensure businesses have access to clear, concise information about valuations, rateable values, rates bills and reliefs. This will be an on going process and feedback will be sought and information improved on a rolling basis.

To initiate this, we will develop a new website to ensure that businesses have access to accurate up to date information about rates to allow them to understand the system, accurately calculate their bill and understand the impact that future business decisions may have on the amount that they pay.

Tax Avoidance measures

Questions 11 and 11a of the consultation related to Tax Avoidance.

In general, analysis found that consultees supported the principle that the Scottish Government should act to ensure that the tax burden is fairly spread. We are aware that there are several avoidance schemes in operation and this costs the taxpayer by diverting support to where it wasn't intended. Closing of these schemes, where it is possible to do so within the limited powers available to the Scottish Government, has the potential to raise new revenue.

Actions

15. The Scottish Government will take all possible measures to prevent tax avoidance and ensure rates are paid.
16. Where possible, loopholes and avoidance tactics will be closed.

Debt Recovery

Although there was not a direct question about debt recovery, some responses made comments on this area and noted it presented a similar opportunity to reducing avoidance. Debt recovery of business rates by Councils is currently out of line with their powers of debt recovery for Council tax payers. It was suggested that, if strengthened, these powers may improve collection rates and this may generate additional revenue.

Action

17. Powers for debt recovery will be strengthened and streamlined.

General comments

Questions 6 and 12 posed general questions about how the system could support growth and an opportunity for general comments respectively.

The independent analysis flagged that a number of responses made suggestions outwith the scope of the consultation, for example by suggesting a move away from a property based tax to base rates on a variety of other methods. However, there was no general consensus on what method should be used. Opposing views noted that property taxes were stable and, compared to other taxes, relatively well understood.

Analysis of responses also showed a theme that some felt the next revaluation should take place sooner than 2017.

The Scottish Government can confirm that it does not intend to do so for the reasons set out in the consultation paper.

We also recognise that some respondents pointed out that the poundage, which is set by Government should be set differently or calculated in a different way. Currently the poundage is set at the same rate as in England, which is linked to inflation. While the poundage is subject to annual inflationary rises. All Scottish businesses benefit from this Government's decision to end the higher rate paid in Scotland and to maintain parity with the English poundage. This is in contrast to the previous administration where the poundage was set higher than the rate in England, putting businesses in Scotland at a significant competitive disadvantage.

Actions

18. The Scottish Government confirms that it has no plans to move away from a property based tax system and will continue to base rates liability on the independent Assessors determination of rateable value.
19. The Scottish Government confirms that the next rates revaluation will take effect on 1 April 2017.
20. The national poundage will continue to be set at the same level as in England to ensure that no Scottish business is put at a competitive disadvantage.



**The Scottish
Government**
Riaghaltas na h-Alba

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