



Department of
**Finance and
Personnel**
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Review of Northern Ireland's Non-Domestic Rating System

Consultation Paper



Improving
**Public
Services**

Ministerial Foreword – Arlene Foster, MLA

This review of non-domestic rating will provide a unique opportunity for us to consider the best system for raising local revenue in Northern Ireland and to ensure that it is fit for purpose for the 21st Century. This follows the revaluation of non-domestic rates that my Department implemented from 1st April 2015.

Locally, business rates account for approximately £592m towards the provision of district and regional services and it is important this revenue is raised in a way that reflects the changing patterns of business activity and conditions within the wider economy.

This 12 week consultation will provide the basis for a wide ranging review of the system of business rates and will also present an opportunity to examine other possible ways to fund local services.

I would encourage as many people as possible to respond to this consultation, so that I can ensure that we have an effective system of taxation in place to help assist with the provision of services in these challenging times for business and public finances.

Arlene Foster, MLA
Minister of Finance and Personnel

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1 Introduction

- 1.1 In November 2013 the then Finance Minister Simon Hamilton announced to the Assembly his intention to undertake a full review of the non-domestic taxation system.
- 1.2 It was intended that this would commence once the non-domestic revaluation had bedded in. On 12 May 2015 Minister Foster announced to the Assembly her intention to proceed with this review. The review will consider whether the current system is fit for purpose and whether there are alternative ways of raising revenue from those who do business in Northern Ireland.
- 1.3 In order to initiate the review, an Innovation Lab (or policy symposium) was arranged in early June. This was attended by representatives from a broad range of interest groups, business organisations, the voluntary sector, local government, academia and professional bodies. These are listed in Annex B.
- 1.4 This group was tasked with establishing a set of guiding principles and setting a direction for the review. This helped shape terms of reference, which was subsequently presented to the Finance and Personnel Committee and agreed by the Finance Minister (see Annex C).
- 1.5 It is intended that this consultation will mainly focus on the current system of non-domestic taxation i.e. business rates, however it will also consider and welcome views on any alternative system that could be used to either replace or supplement part of the revenue currently raised from the business sector through the rating system.

2 Background to the Rating System

- 2.1 Business rates are a tax based on property values and help fund public services within Northern Ireland. There are two different rates levied within NI, a domestic rate for residential properties and a business rate for non-domestic properties. Business rates are levied on the occupier and in the case of vacant property they are levied at a lower rate on the person entitled to possession (usually the owner). Gross liability (before any reliefs) is assessed in direct proportion to a property's rental value (also known as Net Annual Value or "NAV"). From 1 April 2015 values are based on a statutory definition of the rental value of a property as at 1 April 2013 (known as the "antecedent valuation date" or AVD). A rental value is then assessed for every rateable non domestic property in NI¹, whether it is owner occupied, rented or vacant.
- 2.2 The total revenue raised through both domestic and non-domestic rates in Northern Ireland is approximately £1.17bn, with around 50% of this being funded through non-domestic rating. All of this money stays within NI and is used to fund both local District Council services as well as regional services e.g. education, health etc. The total Regional Rate contribution to total central government spending within Northern Ireland is approximately 6%, with the District Rate revenue accounting for around 70-75% of Councils' resources. A high level breakdown of total rating revenue raised is provided in the following table:

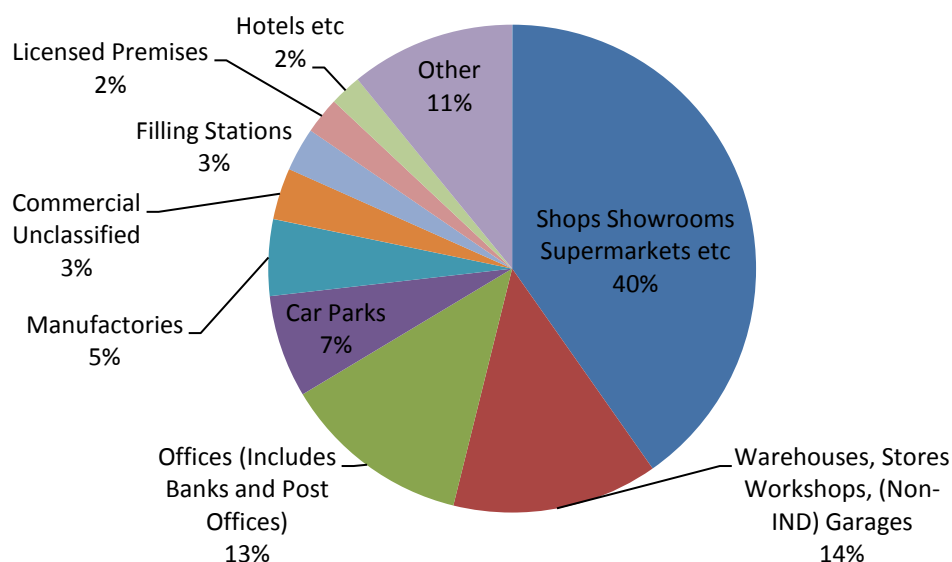
2014/15 £ ²	District Income	Regional Income	Total
Domestic	£261m	£319m	£580m
Non-Domestic	£254m	£339m	£592m
Total	£515m	£658m	£1,172m

¹ There are approximately 73,000 properties assessed for rating purposes, including 10,000 that are distinguished as fully exempt from rates.

² Includes revenue from 'mixed hereditaments' that has been apportioned based on the domestic/non-domestic split

- 2.3 The following chart breaks the total non-domestic rating burden³ down to show the distribution by property classification.

Chart 1 - Distribution of rating burden by Property Class



- 2.4 The above distribution reflects the contribution made by the different property types to the overall rating burden⁴. However, this picture is artificially distorted by a complex system of exemptions and reliefs (rate support) operating within the non-domestic rating system.
- 2.5 It is also worth highlighting that the 40% contribution paid by shops, showrooms and supermarkets cannot be interpreted as the share of the rating burden raised by the retail sector as this may include businesses such as cafes, estate agents, accountancy/law practices etc, as well as a significant number of vacant properties. Nevertheless, retail is likely to contribute proportionately more in comparison to other sectors of the NI economy as well as the overall proportion paid by retailers elsewhere in the UK. However, it is important to note that this does not necessarily mean that the liability for an individual retailer will be higher in Northern Ireland (as noted below in paragraph 2.9 & 2.10) as the distribution percentage will be higher as other sectors get more relief than elsewhere, such as manufacturing, freight transport and exemptions, a point which is borne out if the analysis is carried out on Net Annual Value rather than liability.

³ Based on the total monetary amount due on the last bill (up to 30 June 2015) for the occupancy (excludes costs, fess and credits). This data broadly reflects the total percentage contribution to net annual collectable rates when public bodies are excluded.

⁴ For a more detailed breakdown by property type see annex F2

- 2.6 Reliefs and exemptions serve to reduce or remove the overall rating burden for particular types of property, based on various criteria. In effect, this results in either a higher rate for everyone else or less revenue being available for both District Council and Central Government services. A description of each form of support is available in Annex D and the total revenue cost of all non-domestic rates support is shown in the following table⁵:

Rate Support	Value £
Non Domestic Exempt	£87m
Industrial De-rating	£58m
Freight & Transport	£1.97m
Sport & Recreation	£4.35m
Empty Premises Relief	£0.41m
Residential Homes	£8.30m
Vacant Rating	£43m
Hardship Relief	£0.003m
Rural ATMs	£0.22m
Small Business Rate Relief	£17.87m
Total Cost	£221m

- 2.7 It is worth recognising that the total figure of £221m in revenue forgone will not be split evenly between District Councils and the NI Executive. This is due to the fact that only some of the support measures noted above represent a loss to both district and regional revenue. Indeed of the main measures noted above, only vacant property rating relief and the non domestic exemptions represent a loss to both district and regional rate revenue. Other measures represent a direct cost to central Government finances and not district councils, given that revenue forgone through 'derating' measures such as industrial de-rating, freight transport relief and sport and recreation relief will be fully reimbursed to District Councils through the Department of the Environment's long standing de-rating grant.
- 2.8 Issues around the continued relevance and affordability of the current range of reliefs and exemptions form an important part of this consultation and these matters are covered in more detail later in this report.

⁵ All cost figures should be considered approximate and are reflective of 2015/16 actuals. Total revenue figures represent the amount of combined revenue lost to both the district and regional rate tax bases. For a more detailed breakdown by property type please see Annex F3.

Comparison with rating levels in rest of UK

- 2.9 The average business rates bill (excluding reliefs and exemptions) in Northern Ireland for the last rating year (2014/15) was £10,819. Recent average figures for GB are not available but are understood to be in excess of £15,000 a year. Such comparisons are meaningless, however, as we do not have the same scale of big business here in Northern Ireland compared with the rest of the UK. For example high value undertakings such as the City of London, petro chemical plants and airports e.g. Heathrow, significantly distort the average in England.
- 2.10 What can be deduced is that broadly speaking non-domestic properties of the same rental value attract very similar rates bills here and in England. Within NI, the average charge is around 55p per pound of rateable value; assessed at 2013 rental levels (they are based on a 1 April 2013 Antecedent Valuation Date). The corresponding 'standard' business rate in England is 49.3p, 48p in Scotland and 48.2p in Wales. Again, this is levied per pound of rateable value, but in the rest of the UK these are assessed at 2008 rental levels (they are based on a 1 April 2008 Antecedent Valuation Date).
- 2.11 Since 2011/12 the non domestic regional rate in NI has increased by 9.3%, compared with the Uniform Business Rate in England which has increased by 13.9% over the same period. The regional rate accounts for over half a typical rate bill and in recent years NI has inflated the rate each year using the GDP deflator, rather than the oft-criticised retail price index used in the rest of the UK.
- 2.12 The principal differences with GB lie in relief schemes:
- NI "de-rates" manufacturing premises by 70%, the rest of the UK charge full rates;
 - Charitable occupation come with full rates exemption, compared to the 80% mandatory relief that applies in the rest of the UK;
 - NI charges 50% rates on empty properties, England and Wales charge 100% and Scotland 90%; and
 - Small business rate relief (SBRR) is another significant difference and the findings from the study undertaken by the University of Ulster's Centre for Economic Policy, published Dec 2014, sets out in detail the different schemes that exist (see Annex E).

These matters are explained in more detail later on in this paper.

3 Consideration of Key Principles

- 3.1 Systems of taxation are generally established for the sole purpose of raising revenue, although they can also be used to redistribute income, influence behaviours, manage aggregate demand and correct market failures.
- 3.2 Within Northern Ireland the primary purpose of non-domestic taxation (currently business rates) has been to raise revenue to help fund public services provided by central and local government. When considering any changes or alternatives to the current system there are a number of recognised principles of good taxation policy that should be inherent within any new system. These include efficiency, certainty, simplicity, and flexibility as well as equity/fairness. In addition, it is DFP's view that the revenue yield should be adequate and the tax structure should not threaten overall fiscal targets (revenue neutrality is a working assumption but this will not bind decision makers; whatever system emerges will need to be scale-able).
- 3.3 Consideration has been given to whether particular weighting should be given to each of these criteria, however it is the Department's view that the relative importance of each of these will ultimately depend on the particular perspective from which they are being assessed e.g. taxpayers may take different views on what is fair depending on how it impacts them.
- 3.4 All of these factors are explained in turn within the following section and form the basis for assessing the suitability of alternatives or potential changes to the existing system of property rates.

Revenue Neutral

- 3.5 It is important to highlight that this review is not concerned with investigating potential ways in which to raise *additional* revenue for either District Councils or the Northern Ireland Executive. Rather, the focus is on whether there is a better system for generating the existing level of revenue or whether there are any alternative forms of taxation that could replace all or a proportion of the total revenue currently being collected from the non-domestic rating system.

Efficient and Cost Effective

- 3.6 The efficiency of a taxation system refers to the ease with which it can be practically implemented, whilst at the same time ensuring that compliance costs to businesses and administration costs for government are minimised as far as possible.

Certain and Simple

- 3.7 Tax rules should be simple to understand so that taxpayers can be certain of an exact liability and budget ahead. A simple taxation system that varies little year on year makes it easier for businesses to understand their obligations and also makes it easier for government to undertake accurate budgetary planning.
- 3.8 Such a system will also enable businesses to plan more effectively in relation to how to respond to the intended policy outcome. Furthermore simpler taxes tend to be more difficult to evade as the inherent transparency makes aggressive tax planning and evasion more difficult.

Flexibility

- 3.9 A taxation system that is flexible will be able to respond to economic and commercial developments. This is considered important as it will enable a consistent level of revenue to be maintained and will also lead to a greater degree of acceptance by taxpayers as it can respond to events such as economic downturns.
- 3.10 However, it is recognised that there is a conflict between the predictability, stability and flexibility of any tax system and therefore a balanced approach is needed.

Equity / fairness

- 3.11 Perhaps one of the most critical features of a taxation system is that of equity/fairness. Although this can sometimes be difficult to define it is often thought that a particular tax should first of all treat businesses in similar circumstances the same way and secondly, ensure that those businesses that are in a more advantageous position should bear a larger proportion of the tax burden.
- 3.12 The criteria outlined above are broadly reflective of those provided by the Innovation Lab that suggested any system of local non-domestic taxation should be simple, predictable, provide certainty and be hard to evade.
- 3.13 It is also important to recognise that rates are but one system of taxation that fits within a basket of other national taxes paid by businesses. Any taxation system, that is set and managed locally, cannot be expected to 'tick all the boxes'. It should be viewed in this wider context when contemplating what qualities it should have and the extent to which it complements all forms of taxation. This is also a point to bear in mind when considering issues presented later in this paper about who should pay more and who should pay less.

Question 1 - Are there any additional criteria that should be used to judge the suitability of the system for raising revenue locally?

4 The current System and the Case For Change

- 4.1 This section sets out some of the main features of the existing system of non domestic rating. It also explains the rationale for the current arrangements and what changes could be made. It cannot cover every aspect of the system, however, this is a root and branch review and views are welcome on any areas not described in this paper.
- 4.2 Furthermore, there is a series of technical supplements on the consultation website with more background information on some issues that are considered 'ripe for reform'. Links are provided at Annex F.
- 4.3 Property rates have been in existence in the British Isles in one form or another since the 16th Century and have gradually evolved over many years. The main benefit of the system is that it is difficult to evade and provides a stable revenue stream for government. Despite this, the system of property rates is often criticised, as the charge is ultimately based on the nature of the property and is not directly linked to the performance of the occupying business.
- 4.4 Despite no system of taxation being perfect, it is DFP's view (and HM Treasury's in GB) that the current system of property rates scores highly for each of the key principles outlined above as it is relatively efficient, provides certainty for both government and businesses, is difficult to evade (given the visibility of property) and allows for flexibility where there is a process of regular revaluations and a tailored system of reliefs. For example, while some firms may attempt to structure themselves in such a way so as to pay a lower the rate of corporation tax, it is very clear who the occupier (ratepayer) of a commercial property is, thus providing for more certainty in the collection of the tax.
- 4.5 Considerations around the equity of the system are more difficult to define and will ultimately depend on individual perceptions of what is fair. There will be some businesses that resent having to pay any rates, others for whom it does not represent a large proportion of their operating costs and some who consider it grossly unfair, given the large percentage of their turnover that goes towards covering their liability.
- 4.6 Given DFP's view that the review should be revenue neutral and that raising less revenue from businesses is not an option, there are a number of issues that can be assessed to determine whether the existing system of property rates can be made more equitable. These include the process and frequency of **revaluations**, the system of **reliefs**, **widening** the tax base as well as aligning the system to an **ability to pay**.

- 4.7 The Innovation lab also raised the issue of the need to improve collection performance within LPS in order to maximise the amount collected so that the overall burden on ratepayers can be reduced. This is an important issue but it is not something covered in this Consultation Paper, the reason being that LPS had its processes independently reviewed in 2014/15 and is already engaged in a process of major reform in this area.
- 4.8 This is much more than a series of initiatives. It is an integrated and coordinated programme intended to lead to a systemic and step change in performance. It includes centralisation of collection activity, using specialist account managers for high value ratepayer accounts, segmenting ratepayer debt in terms of propensity to pay and employing 'nudge' techniques (i.e. behavioural insights) within the recovery framework.
- 4.9 It also involves the development of new IT systems to accommodate innovative payment channels (particularly digital) with greatly improved functionality, including advanced analytical tools for debtor profiling and targeting. Key to improving recovery is good data and LPS is working with Councils and other agencies to ensure that those 'who can pay but don't', can be successfully pursued through the Courts. Finally, to measure improvement, progress and success, LPS is in the process of undertaking a bench marking assessment with relevant billing authorities elsewhere in the UK.

Rateable Values, Net Annual Values (NAVs) and Revaluation

- 4.10 As explained above, rates are a property tax and as such the system differs from most other forms of taxation in a fundamental way. This is due to the fact that the amount of revenue to be raised each year is decided in advance, through the budgeting processes of both the NI Assembly and the 11 District Councils.
- 4.11 Broadly speaking, the total amount to be raised is distributed amongst a defined number of taxpayers (ratepayers) based on, and in proportion to, the value of the property in their possession. In Northern Ireland (and the rest of the British Isles) we use rental values, as property letting dominates the open market for commercial property and therefore provides the widest possible evidence base.
- 4.12 Market rents are affected by the economic factors of demand & supply. As rateable values (more accurately referred to as Net Annual Values or NAVs) are derived from rental evidence, the same considerations apply when undertaking these assessments. Rents and thus NAVs are influenced by:
- the physical state of the property;
 - its locality;
 - its potential use; and
 - the use or occupation of other premises situated in the locality.

- 4.13 The big difference between rental values and NAVs is the fact that rents fluctuate over time, whereas NAVs are fixed at a uniform (Antecedent) valuation date. This means that over time the assessed values become out of date and therefore it is necessary to undertake **general revaluations** every few years, when every property is reassessed at a new valuation date. This is currently undertaken by Land & Property Services (LPS) within DFP.
- 4.14 Following every revaluation, a new Valuation List is produced in order to establish where the rating burden should fall and once district and regional rate poundages are calculated, determine how much each ratepayer proportionately contributes to the overall amount of revenue to be raised. A revaluation occurred this year and previous lists were produced in 2003, 1997 and 1976. The new 2015 list details the rental value of the property as it would have been at 1 April 2013.
- 4.15 No additional revenue is raised through a revaluation, however wider economic and social changes that have occurred since the last revaluation are taken into account. Sectors and locations that have fared better than others since the previous revaluation will pay more and correspondingly those that have not fared so well will pay less. It is a rebalancing or redistribution exercise.
- 4.16 Although it was 12 years between the previous revaluation in 2003 and the revaluation that came into operation in April 2015, more frequent revaluations are preferable and could take place every e.g. 3-5 years. It could also be written into legislation (as is the case in the rest of the UK) to ensure it is regarded as and becomes part of the normal rating activity cycle, rather than the current uncertain situation where it needs full Executive approval to proceed. This would not inhibit the Executive and Assembly taking through legislation to delay a revaluation should circumstances arise that merit postponement.
- 4.17 More frequent revaluations would also help to mitigate problems for businesses resulting from a material change of circumstance that affects the local trading environment. For instance, this can happen in a shopping centre when an anchor tenant leaves an area, and in so doing reducing the footfall and demand for all other businesses in the vicinity.
- 4.18 The counter argument is that having more frequent revaluations will lead to greater uncertainty and potential instability for businesses as they will have to more often consider their own property needs, and whether or not they can afford any potentially higher rates liability (see Annex F1 for further background information on this issue).

Question 2 - Do you think that more frequent revaluations would lead to a more equitable rating system and improve the current rating system?
Question 2a - If yes, how often should revaluations occur?
Question 2b - Should the date and/or frequency of revaluations be written into legislation?

System of Reliefs

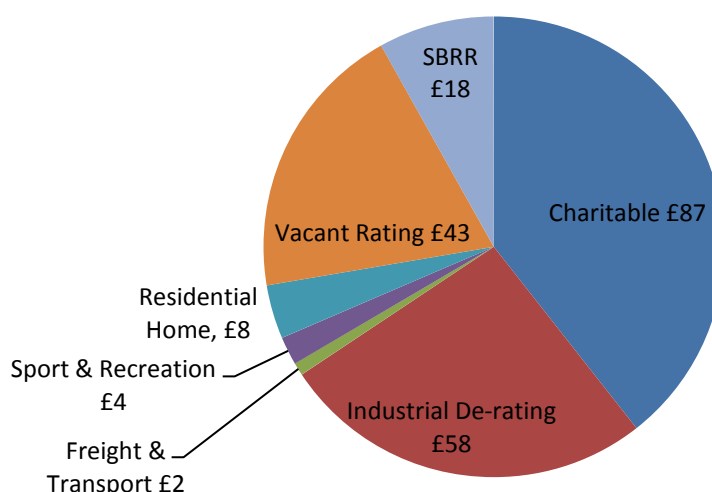
- 4.19 The system of reliefs is perhaps the main lever of the rating system that can be used to address the issue of equity as it provides the opportunity for government to adjust the rating liability for a particular class of ratepayer. However it could be argued that a system of reliefs creates an uneven distribution of the rating burden, which in itself could be considered unfair as businesses will be treated differently for no other reason than the industry they operate in or the size of the property they occupy.
- 4.20 This begs the question as to whether it would be better for the whole system of reliefs (that essentially are a form of government subvention) to be abolished so that all non domestic ratepayers are treated equally, with their liability being based solely on the rental value of their property, rather than the application of various reliefs. Such an approach would also serve to bring this financial support within the public expenditure regime and allow decisions to be made based on spending priorities agreed by Ministers, rather than through the rating system. Indeed, it is often regarded as an easy and somehow less costly option for worthy groups and sectors to receive assistance through the rating system rather than through direct funding, with concessions granted in the past quickly becoming long term entitlements. Furthermore, every pound granted in rating relief is a pound less to spend on health, education, roads and other important local services.
- 4.21 Whilst such a radical approach would serve to simplify the rating system, it would leave it unable to respond to changing economic circumstances or respond to those who may be considered to be in need of rate relief e.g. charities. Furthermore, all property taxation systems around the world have a series of concessions that reflect local policy preferences. This underlines the need to keep this as a feature of any future rating system.
- 4.22 If the rating system is to continue with a system of rate support, it is important to carefully examine each of these in turn and determine whether they remain fit for purpose. In addition there may be merit in establishing guiding principles for maintaining and developing such support. This could include criteria such as:
- a clearly stated purpose/need;
 - be time-bound with well defined timescales;
 - be better targeted or more closely linked to the Economic Strategy;
 - have an exit strategy to end a particular form of rate support; and
 - have an evaluation process established at the outset to assess its effectiveness over time.

Question 3 - Do you think that all current and/or future rate supports should adhere to clearly defined criteria?

Question 3a - What should these criteria be and what do you consider to be the most important?

- 4.23 There are currently 10 main support measures in operation that represent revenue forgone of £221m. Of all properties included within the non-domestic valuation list approximately 75% obtain some form of allowance with their rates. If vacant properties are excluded this figure is reduced to around 55%, which is perhaps a better indicator of the level of support being provided to businesses and organisations through the rating system.

Chart 2 - Distribution of rate support £m



- 4.24 The historical context for each support measure is set out in Annex D. The following section explains the rationale for the current system of reliefs, highlights possible issues and seeks views on the ongoing relevance and importance of these reliefs.

Industrial De-rating

- 4.25 Industrial de-rating provides 70% relief to manufacturing businesses i.e. factories. It costs approximately £58m in revenue forgone each year and supports around 4,400 ratepayers. It no longer exists as a support mechanism within the rest of the UK
- 4.26 Under Direct Rule the intention was to phase out industrial de-rating by 2011. However, following the restoration of the Northern Ireland Executive in May 2007, a decision was taken to halt this process and cap the relief at the then rate of 70%. This decision was informed by an evaluation carried out by the Economic Research Institute for Northern Ireland (ERINI) that recommended the relief be retained (though kept at no more than 50%).
- 4.27 The report recognised that despite the manufacturing sector experiencing significant job losses in the past e.g. textile and clothing sector, it still played a key role in the local economy.

- 4.28 Deciding whether to keep (or change) the current level of relief for this sector is really a balanced argument between the potential damage to the sector versus the benefit to other business ratepayers of having manufacturing taking up a larger share of the overall rating burden.
- 4.29 Analysis undertaken by ERINI in 2007 suggested that if the relief was removed, rates would represent no more than 15% of total profit for 80% of firms⁶. Furthermore, depending on whether firms decided to protect employment or profits, it was ERINI's assessment that removing the relief was likely to lead to a net loss of between 514 and 1645 jobs, after taking into account any increase in public sector employment (assuming the additional revenue was used for public sector investment). Needless to say, it is now 8 years later and these figures should be treated with caution.
- 4.30 In considering the merits and demerits of continuing to support all manufacturing in NI through industrial derating, there are other wider issues to consider. Manufacturing is an energy intensive activity and energy prices here remain high. According to the recent Cost of Doing Business Survey⁷, very large electricity users have comparatively high energy prices against other EU comparators, although this group of companies have benefited the most from recent declines with their price having fallen by 14% up to the end of 2014.
- 4.31 Couple this with peripherality arguments (location within UK and EU), there are concerns around NI maintaining its competitive position; not merely in relation to other manufacturing companies elsewhere but also for large multinational companies with plants around the world that effectively compete with one another for business.
- 4.32 At the time of writing the most recent data (2013) shows that manufacturing accounts for 24% of Northern Ireland's Gross Value Added (GVA) and employs close to 78k people or 15% of the total workforce. To put this in context, this compares to e.g. the services sector that accounts for at least 35% of total GVA, employing 262k or 50% of all employees and the retail sector that accounts for around 12% of GVA and 17% of all employees.
- 4.33 Analysing the recent performance of this sector is complicated by the extreme economic downturn that was experienced in 2008. However the performance of the manufacturing sector since 2012 shows growing output as well as increasing employment, leading to an overall increase in sectoral productivity. Given that improving productivity is one of the goals of the Executive's Economic Strategy, it is evident that manufacturing is one of the key sectors that can help contribute towards this goal.

⁶ Based on a sample of 1,248 matched businesses and using Gross Operating Surplus as a proxy measure for profit.

⁷ <https://www.detini.gov.uk/publications/cost-doing-business-northern-ireland>

- 4.34 As many of Northern Ireland's manufacturing success stories are indigenous businesses that often operate outside of the main urban areas, it is also evident that this sector provides employment in locations that are unlikely to be successful in attracting Foreign Direct Investment, again underscoring its importance to the wider Northern Ireland economy.
- 4.35 An alternative to keeping the long established scheme would be to use this relief in a more targeted way by e.g. only providing relief to those manufacturing businesses that engage in research and development or operate within particular high value/high growth sectors.
- 4.36 However it is important to note that the current industrial de-rating policy was a pre EU accession subsidy and due to rules on State Aid, it is unlikely that a similar policy could be introduced today. Consequently any change would have to be in the direction of removing/reducing the relief and if a more targeted approach was being considered, it would have to be subject to the normal rules on state aid. Any reduction could not however be reversed in future due to the restrictions placed on the Executive by EU State Aid implementation.

Question 4 - Should industrial de-rating be retained in its current form?

Question 4a - If you disagree, what would you recommend instead and why?

Sport & Recreation Relief

- 4.37 Relief for amateur sport and physical recreation facilities is granted under Article 31 of the 1977 Order. The 80% relief is granted on the basis that it encourages physical recreation at an amateur level and makes a significant contribution to health care. The total cost of this relief annually in revenue forgone is £4.3m, 23% of which results from golfing facilities, with a further 32% being accounted for by sports grounds.
- 4.38 The present policy, although being adjusted to the level of 80% relief in 2007, has its origins in the 1978 Report of the Lawrence Committee on the rate liability of bodies permitting facilities for sport, recreation and community activities in Northern Ireland. Part of the rationale to raise the level of relief up to 65% from 35% in light of the Lawrence report (which was slightly higher than the then level in GB) was that the enhanced incentive for "voluntary clubs and societies that offer opportunities for constructive social effort" was deemed to be "justifiable in view of the difficult circumstances in Northern Ireland at the present time". The report also took a general view that such organisations, "offer opportunities for constructive social effort" and "are particularly valuable in areas of high unemployment and social deprivation and where vandalism and anti-social behaviour are rife."

- 4.39 The current 80% level of relief is the same as that provided elsewhere within the UK, however local authorities in England & Wales do have discretion to apply a further 20% relief subject to certain local criteria.
- 4.40 Key conditions for securing this rate relief are that the organisation must be established as 'not for profit' and engaged in a 'prescribed' recreation⁸. Social facilities (bars restaurants, function rooms etc) are excluded from relief, though they are not assessed in the same way as commercial undertakings.
- 4.41 For larger clubs with extensive social facilities this raises questions around equity and fairness in relation to the interests of private enterprise and in particular the hospitality sector. This issue is not confined to hotels and bars but also extends to privately owned golf clubs, riding schools and other private enterprises.
- 4.42 However it is important to note that the full 80% sport and recreational relief can be awarded to e.g. adjoining social facilities provided the NAV of such facilities is no more than 20% of the total NAV of the hereditament.
- 4.43 This provision was originally made so as not to penalise sporting facilities that had proportionately modest social facilities. However given that some sporting facilities can have a large NAV e.g. golf courses, the 20% criteria can often mean that substantial social facilities can benefit from the full 80% sport and recreation relief.
- 4.44 At the time of writing the subject of enhanced relief for designated Community Amateur Sports Clubs is being considered. There are issues around providing relief to clubs with successful social facilities and a separate consultation will be undertaken with the relevant business organisations, including the hospitality sector before the matter is taken forward.

Question 5 - Do you consider that rate relief for Sport & Recreation should be awarded as at present and maintained at the current level of 80 % ?

Question 5a - If you disagree, what would you recommend instead and why?

Question 5b - Should the criteria to disregard social facility apportionment be removed or reduced from the current level of 20 % ?

⁸ As prescribed in The Rates (Recreational Hereditaments) Order (Northern Ireland) 2007

Freight Transport Relief

- 4.45 Freight Transport relief was introduced throughout the United Kingdom in 1929 (along with industrial de-rating) but was removed in Great Britain in 1963. It survives in Northern Ireland and today applies to publicly funded and private sector transport undertakers. The relief has an annual cost of approximately £2m and applies to 17 individual properties that are mainly associated with harbours and ferry terminals.
- 4.46 It is granted to encourage lower freight charges and is intended to benefit exporting firms as Northern Ireland is on the periphery of Europe, which it is argued, results in higher transport costs when trying to access the main European markets. To qualify for Freight Transport de-rating, the use of the facilities must involve the handling and shipment of goods that are neither owned by nor intended for the use of the operator.
- 4.47 As with industrial de-rating, Freight & Transport relief was a pre EU accession subsidy and due to rules on state aid it is extremely unlikely that such a measure could be introduced today. Indeed the only possible changes to the policy today will be in the direction of reducing or removing the subsidy.

Question 6 - Should Freight & Transport relief be removed?

Question 6a - What would be the potential consequences of such move?

Small Business Rate Relief (SBRR)

- 4.48 The Small Business Rate Relief (SBRR) scheme was introduced in 2010 to support small businesses at a time of economic downturn. Since then 110,000 SBRR awards have been made to non-domestic ratepayers, with an average award of £516 each, at a total cost of £61.5m. Annually, some 26,000 properties receive relief under the scheme at a cost of around £18M.
- 4.49 In 2014, the Ulster University's Economic Policy Centre (UUEPC) undertook an extensive evaluation of SBRR (Annex E). The report concluded that the scheme should be retained for a further year (2015/16) prior to being phased out as economic conditions improve. Indeed the main criticism of the scheme was that despite its popularity, it provided little economic benefit in terms of increased employment or additional investment. Furthermore, there was little evidence to suggest that it made a significant difference to business survival rates during the recession. The report also suggested that if a replacement for the scheme was to be considered, it should take a more targeted approach focusing on economic growth, to ensure value for money is maximised.

- 4.50 The one year extension to the scheme is due to expire on 31st March 2016. Consequently any decision on its potential replacement will have to be made outside this review and in the context of the budget progression. Any proposals to replace the scheme will be taken forward as part of a separate consultation and include input from the Department of Finance and Personnel, Department for Social Development as well as the Department for Enterprise, Trade and Investment.

Residential Homes Relief

- 4.51 The annual cost of the Residential Homes Relief is approximately £8.3m and applies to just under 500 individual properties. The policy was originally aimed at incentivising and promoting the provision of residential care homes. A breakdown of this relief between the private and public sector is available in the following table:

Type	Number	%	Cost £m	%
Private	317	65%	£5.95	72%
Public	170	35%	£2.35	28%
Total	487		£8.30	

- 4.52 To qualify for this relief all or part of the property must be used wholly or mainly for one or more of the following purposes:
- the provision of residential accommodation for the care of persons who have an illness or the after-care of persons who have an illness;
 - the provision of facilities for training or keeping suitably occupied persons who have an illness or persons who have an illness;
 - the provision of such accommodation or facilities as are mentioned in the previous two points for persons with a disability the provision of personal social services for persons with a disability; and
 - the provision of facilities under section 15 of the Disabled Persons (Employment) Act (Northern Ireland) 1945.
- 4.53 Whilst there may be merit in providing rate relief in relation to the care of the elderly; it is perhaps less clear who actually benefits from this exemption. Indeed does this cost saving for residential homes represent a reduced cost and therefore an increase in net revenue for the provider or is it passed onto residents in the form of lower charges? There is also an issue around the appropriateness of the relief given that residential homes benefit from the services (both locally and regionally) that rates pay for.

Question 7 - Is residential homes relief still necessary to encourage the provision of care homes by the private sector?

Question 7a - Should it be limited to organisations that can demonstrate charitable status?

Vacant Property Rating

- 4.54 In general, once a non domestic property becomes vacant, it will receive 100% exemption for the first three months of that vacant period. After this period has elapsed, the property owner will only have to pay 50% of the occupied rates liability. This compares to a situation in GB where the owners of a vacant property do not receive any relief and incur the full 100% liability (90% in Scotland).
- 4.55 This Non Domestic Vacant Rating (NDVR) “relief” (known as “empty property relief” namely a 50% reduction of the occupied rate) accounts for 20% of all non-domestic reliefs and costs approximately £43m in revenue forgone per year. It was introduced in 2004 and was reviewed in 2009 at which time it was decided to maintain it at 50% in order to help property owners mitigate the impact of the recession. This cost is made up from a variety of sub categories that are detailed in the following table:

Vacant Rating Sub Category	Cost £m
NDVR - 3 month period	£2
NDVR - 50% Amount	£25
NDVR – NAV < £2k	£4
NDVR – Exemptions (Annex F4)	£13
Total Vacant Rating	£44⁹

Question 8 - Should empty property relief continue at 50 % ?

Question 8a - Should any of the current NDVR exemptions (listed in Annex F4) be removed?

Question 8b - Should there be any additional exemptions within the policy?

Empty Shops Rates Concession

- 4.56 In addition to NDVR, an Empty Shops Rates Concession scheme operates at an approximate annual cost of £400k. The scheme is intended to provide an incentive for long term vacant premises to become occupied by providing a 50% reduction in the rate liability for the first year of occupation if the property has been lying empty for at least a year. Consequently it could be argued that this scheme does not actually represent a cost in terms of revenue forgone, as there is a possibility that the premises would continue to remain empty (without this incentive) after the first year of NDVR had elapsed.

⁹ Differences with 4.55 are due to rounding

- 4.57 There are calls for the relief to be awarded where properties have only been vacant for 6 months or to extend the relief beyond the first year. The current policy has the merit of targeting those properties that are the biggest problem (empty for a long time) and balancing the interests of established businesses in the area by confining relief to that difficult first year of trading. Furthermore, a relaxation of the conditions could lead to it becoming a means of avoiding rates.

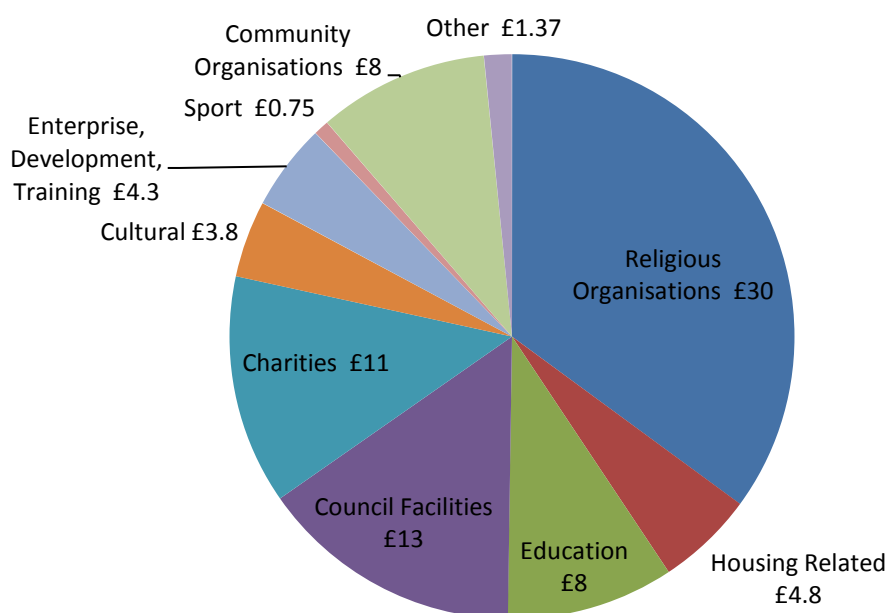
Question 9 - Is there any evidence that the parameters (qualifying criteria or duration) of the empty shops rates concession should be changed?

Question 9a - If yes, to what should they be changed to?

Non Domestic Exemption

- 4.58 If a property is occupied by a charity (or an organisation not established for profit) and is used for purposes that directly facilitate its aims, it is generally not liable for rates. The annual cost of this 100% relief is approximately £87m per year and is available to organisations established for the following purposes:
- the advancement of religion;
 - the advancement of education;
 - the relief of poverty; and
 - other purposes beneficial to the community
- 4.59 Whilst there are obvious examples of organisations that benefit from this relief e.g. churches & charity shops, it is recognised that there is a wide range of organisations covering activities as diverse as e.g. education, rural development, housing and the arts. A full breakdown of the total cost of this exemption, based on type of organisation, is available in the following chart:

Breakdown of charitable exemption by type of organisation £m



- 4.60 A further breakdown of the non-domestic exempt category reveals that just over £60m or 70% of the total value of this exemption applies to just over 2000 properties or 20% of total recipients. Of these 2000 properties, 33% are linked to churches with a further 18% being offices. This would indicate that if there were any changes made to the relief it could impact significantly on this relatively small number of ratepayers. This analysis is presented in the following table:

Individual exemption £	£0 < £1k	£1k - £2k	£2k - £3k	£3k - £4k	£4k - £5k	£5k - £10k	> £10k
No. benefiting	1,117	1,746	1,341	1,008	813	1,937	2,020
Average amount	£622	£1,486	£2,460	£3,480	£4,498	£7,042	£29,825
Total Value	£0.695m	£2.6m	£3.3m	£3.5m	£3.7m	£13.6m	£60.2m

- 4.61 Despite these ratepayers being aligned to organisations that have a social/charitable purpose, some have argued that their rates liability should be treated the same as any other property cost e.g. rent, electricity, heat & light etc. This is especially pertinent considering these organisations benefit from the provision of services at both the local and regional level and may receive additional assistance in the form of various tax reliefs.
- 4.62 The counter argument is that these organisations often have limited resources and it is thought that those resources are better utilised providing social benefits through pursuing charitable objectives rather than funding public services directly through rates.
- 4.63 As many of the organisations receiving a 100% non-domestic exemption are registered charities, it is perhaps worth examining the financial profile of charities within Northern Ireland to assess whether it would be possible for them to make some contribution towards the overall rating burden. Indeed information within the following table outlines the profile of income for a sample of 603 charities registered with The Northern Ireland Charities Commission:

Income Band	% of sample	Average Income £m	Total Income £m	% of Total Income
£0 - £100,000	70%	£0.03	£11.20	10%
£100,001 - £200,000	11%	£0.14	£9.83	9%
£200,001 - £300,000	5%	£0.26	£7.40	7%
£300,001 - £400,000	3%	£0.35	£5.59	5%
£400,001 - £500,000	2%	£0.45	£6.36	6%
£500,001 +	9%	£1.40	£72.26	65%
	100 %	£0.185	£112	100 %

Source: The Charity Commission for Northern Ireland – *The Northern Ireland register of charities at a year*

- 4.64 The above information demonstrates that 70% of charities have an income of less than £100,000 although it is likely that there are a significant number with extremely small revenue streams of a few hundred pounds. In addition, it can be noted that 80% of registered charities operate with an income of less than £200,000, accounting for less than 20% of the sector's income. Conversely, those charities with an income of more than £200k make up less than 20% of the sector, but account for more than 80% of the total income.

- 4.65 Given the evidence outlined above it could be argued that it is both appropriate and affordable for some of the organisations currently benefiting from a 100% exemption to make some contribution towards their rates. This is especially pertinent considering that the charitable exemption elsewhere within the UK is 80% (although DFP is of the view that if changes are to be made to the 100% non-domestic exemption, then changes should only apply to those sectors that compete directly with commercial undertakings). This would include the many charity shops found in our High Streets. Day nurseries run by charities are another less obvious example. Council owned leisure centres also get a full exemption and on the face of it appear to compete with private sector providers. However, Councils do have a statutory duty in this regard and the considerations are different. Nevertheless, there may be merit in considering the continued affordability of providing 100% exemption, as this represents a loss to the regional rate as well as the district rate. There is more of an issue around rates exemption for municipal golf courses, which are also run by councils but appear to compete with proprietary golf clubs who pay full rates (see also para 4.41 & 4.42).
- 4.66 Indeed, the growth in the number of charity shops in recent years has highlighted the interaction between vacant rating and the non domestic exemption. It is the case that once a property becomes vacant, rather than pay the 50% rates liability, landlords often rent (or where the market is depressed allow the use and occupation of) these premises out to charities thereby qualifying for 100% relief (irrespective of the size or location of the property). This has lead to a situation where charity shops have become a significant part of the high street in many towns, selling goods such as second hand furniture, clothes and books.
- 4.67 Whilst the growth in charity shops has lead to advantages e.g. revenue for charities, occupation of empty premises, increased footfall etc, it is unclear to what extent these outlets have had a positive impact in the local area as they have lead to a reduction in the overall retail mix and can represent competition for existing business. In addition it is questionable whether sufficient incentives now exist for landlords to put these premises into commercial (and rateable) occupation.

Question 10 - What changes (if any) should be made to the current level of 100% non-domestic exemption?

Question 10a - Should a reduced exemption or cap apply to those organisations competing with commercial interests?

Question 10b - Should all charity shops pay some rates?

Question 10c - Should charities have their relief capped so that they do not take over expensive properties simply to help the owner avoid empty property rates?

Hardship Relief and Rural ATMs

4.68 Hardship relief was introduced to help with rates bills for businesses recovering from a temporary crisis, financial or otherwise, as a result of exceptional circumstances. Although not easily defined such exceptional circumstances would usually be those that are:-

- external to the business or organisation;
- beyond normal business risk;
- unavoidable; and
- unforeseen.

4.69 The impact of strikes within a business or organisation increased operating costs (e.g. energy, transport) and increased market competition would not be considered exceptional. The relief provided is also discretionary i.e. applied on a case by case basis. It is intended to be temporary and it will only apply for the length of time required for a business or organisation to recover from the crisis. It should be noted that hardship relief is rarely applied with only 2 applications being successfully processed since the scheme was introduced in 2005.

4.70 The Rural ATMs exemption was introduced in 2007 with the objective of encouraging and sustaining the provision of ATMs in rural areas. It has an annual cost of £217k and applies to around 70 ATMs providing an annual saving of £2,800 per ATM.

4.71 The exemption is provided for stand-alone ATMs that are individually valued in the valuation list, such as those located outside petrol stations or on high streets. It does not apply to those located in banks or building societies, which tend to be valued as part of that property.

4.72 In a 2012 evaluation of the policy it was noted that banks did not consider the rates exemption for rural ATMs to be an influencing factor in the decision to locate an ATM in a rural area. However, more importantly, the relief was seen as a determining factor for banks in deciding whether to retain or remove ATM's from rural locations. The policy is due to expire on 31 March 2016.

Question 11 - What, if any, changes should be made to both the hardship relief and Rural ATM exemption?
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Aligning rating system to Economic Strategy

4.73 It has been suggested that the rating system should be more aligned to the Northern Ireland Executive's Economic Strategy. This would ensure that reliefs and exemptions are better aligned to economic priorities, thereby creating incentives for growth in particular sectors.

4.74 Indeed, the Economic Strategy has at its core the goal of “improving the competitiveness” of the Northern Ireland Economy. This is to be achieved through rebalancing the economy by focusing on the following key economic priorities:

- stimulate innovation, R&D and creativity
- improve skills and employability.
- compete effectively within the global economy.
- encourage business growth.
- develop a modern and sustainable economic infrastructure.

4.75 However it is unclear whether a rating system that has the primary function of raising revenue should be used as an economic development tool and whether such a system should duplicate the efforts and resources of other government Departments such as InvestNI, which may be better placed to deliver more successful outcomes.

Question 12 - Should the rating system be used to pursue economic development objectives or should its primary function be to simply raise revenue? If yes, what sectors should be targeted?

Question 12a - What are the disadvantages of such an approach and do you feel that using the rating regime in this way would make a material difference to Northern Ireland’s economic performance?

4.76 Economic development might also be assisted by District Councils being able to provide district rate relief to specific ratepayers based on criteria that they would decide to impose. Such a system could operate on a similar basis to the system in GB that allows local authorities to provide discretionary relief to e.g. charities & community amateur sports clubs. Relief could be provided for a variety of reasons and include the following examples:

- to top up a mandatory relief;
- to ratepayers in a particular ward – perhaps to assist the regeneration of a rundown area;
- to a class of ratepayers across the Councils area e.g. business providing jobs for a certain number of people;
- rates holidays to businesses starting up in the area; and
- to specific sectors e.g. high street retail units – to support town centres.

- 4.77 Any possible new reliefs granted by District Councils are likely to raise issues around State Aid. As the discount would be introduced at the discretion of local authorities, who would also be funding the relief and taking decisions on the nature of the relief, responsibility for ensuring that the grant of relief did not contravene the rules on state aid would lie with the authority.

Question 13 - Would it be advantageous for District Councils to take on powers for granting reliefs?

Question 13a - In what areas would this be considered beneficial?

- 4.78 District Councils could also be given more discretion over the rate setting process by enabling them to strike completely separate domestic and non-domestic rates. Currently, councils strike one non-domestic rate and conversion factors are used to work out the corresponding domestic rate. The proportion split between domestic and non-domestic was established in April 1976, which was the last time that both sectors were valued at the same time and on the basis.
- 4.79 Providing councils with the ability to strike separate domestic and non-domestic rates could enable rates to be more reflective of services provided and provide greater accountability at the local level as there could be increased transparency in relation to what services e.g. non-domestic rates actually pay for.
- 4.80 In addition, there is also the issue around the de-rating grant and whether District Councils should continue to be compensated in full by central government for reliefs in relation to manufacturing, sport & recreation as well as freight and transport.

Question 14 - Should District Councils have the ability to strike separate domestic and non-domestic rates?

Question 14a - What would be the advantages and disadvantages of such an approach? Should District Councils continue to be compensated in full for the elements contained within the de-rating grant?

Aligning rating system with an ability to pay

- 4.81 The current system of assessed rental values provide a crude measure of ability to pay, because the more successful and profitable businesses usually gravitate towards higher value property. Rent is often a residual expense and businesses tend to bid for what they can afford to maximise profit. This of course is over simplifying matters and there is a whole series of reasons why theory does not translate into practice for many

individual businesses e.g. a business occupying a large NAV property may be operating on small margins and struggling to make a profit. Consequently, some have argued that rates should take account of factors other than the rental value of the property.

- 4.82 This could include some measure of turnover or profitability, Gross Value Added (GVA) or number of employees. There are no clear nor obvious international case studies to draw from though it is noted that France determines an element of local property taxes based on GVA for businesses with a turnover of more than €500k. The big problem when trying to adopt an approach more related to individual business activity is that it is likely to add unacceptable complexity to the current system. Such a system is likely to require ratepayers to provide detailed information, or will require LPS to source appropriate data from HMRC. It would also mean that the simple recurrent nature of the current system would have to change and this could lead to complete reassessment of an individual business' rating charge every year or two, adding cost to both government and business.
- 4.83 Having said that, it is understood that the Federation of Small Businesses is currently examining this issue. Any practicable ideas that emerge during this consultation from the Federation will be carefully considered and if it would help address the ability to pay question and are capable of implementation their proposals will be presented on the DFP website: www.dfpni.gov.uk
- 4.84 Whilst the existing system of property rates may not directly reflect a business' ability to pay, most businesses will seek to optimise their property requirements by taking into account factors such as size, location & specification (that will impact on the rental value) and consequently their potential rates liability. Effective businesses already review their occupation needs periodically to utilise or rationalise their property assets and in extreme cases re-locate, for example if an area's character is changing and it no longer suits the needs or cost base of the particular business. The current rating system at least reflects wider changes in the economy if revaluations are undertaken on a much more regular basis.

Question 15 - To what extent do you feel that a rate bill based on a property's NAV is a fair reflection of the occupying business' ability to pay?

Question 15a - Should local revenue be raised using an alternative method that would better reflect an 'ability to pay'?

Question 15b - What method should be used and what are the advantages and disadvantages of such an approach?

Basis of Liability and Value

- 4.85 This review also provides an opportunity to consider the basis of assessment for a non-domestic rating liability and whether the bill should be issued to the owner or occupier of a particular property.
- 4.86 Taxing occupation is the current system in NI, GB and ROI and it generally operates effectively. If ownership were to be taxed in NI there could be savings in billing and collection simply because few bills would issue e.g. a shopping centre would attract one assessment and one bill. However some of the disadvantages of such an approach would be that it would require the maintenance of an ownership database (set up cost could be substantial) and it could also lead to collection problems from owners who reside outside of the NI jurisdiction.

Question 16 - Should we consider taxing ownership instead of occupation for the Non-Domestic sector?

- 4.87 As is the case throughout the British Isles, non-domestic property rates are currently assessed based on an individual assessment of NAV or Rental value of a property.
- 4.88 In terms of individual assessment, this was something examined last year as part of Whitehall's Administrative Review of Business Rates. Options were presented about adopting a more 'broad brush' approach, such as 'banding' or 'zoning' of values, to simplify the system, reduce cost of assessment and appeals and facilitate rolling revaluations. The pro and cons of these approaches were set out in a consultation last year. Ratepayers in England sent a clear message that they want to continue receiving an individual valuation for their property, on which their business rates bill is based. Northern Ireland, could choose to adopt a broader brush approach, though, as that consultation discovered, this is likely to be at the expense of equity and fairness for many ratepayers. It also could be regarded as a policy contrivance for the sake of administrative ease rather than good for ratepayers as a whole.
- 4.89 Moving to individually assessed capital values as the basis for distributing the rating burden would be a major change. Such a system is considered to be more progressive as it is likely to amplify the current difference between the best and the worst property values. Generally prime commercial properties, notably retail and office properties would pay more and secondary ones less (for any given level of revenue raised). It follows that small businesses would usually be winners as they tend to occupy less expensive property.

- 4.90 There is evidence that increasing the rates burden adversely affects rental value usually in the medium to longer term because of existing contractual rent arrangements. Capital values are more likely to be affected immediately and thus it is probable that prime property would be to an extent a less attractive investment if it attracted a higher tax. Furthermore, given the lack of market evidence for non-domestic capital values there is also likely to be a risk of higher levels of challenge against valuations. A full study of market impact and the economic consequences of a move to a capital value system would need to be carried out before any decision could be taken. One negative impact could be its effect on the viability of new prime development and corresponding site values. The corollary is that it could have a positive impact on the economics of development in secondary areas.

Question 17 - Should a switch to capital value be considered in more detail for Non-Domestic property?

Widening the property tax base

- 4.91 It is reasonable to expect any system of taxation to treat similar businesses in a similar way. Applying this rationale to the current system would mean that any business occupying a property with a potential market value should be included within the NAV assessment and be liable for rates. This would ensure that the burden of taxation is spread more widely, resulting in a smaller rates bill for everyone else.
- 4.92 Furthermore, the growth in commercial property (shops, offices etc) over many decades would appear to be in decline with many large companies rationalising their assets in response to the transformation in the way people shop, work and spend their leisure time. The sustainability of the non-domestic property tax base can only be maintained if there is an injection of new sources to stimulate growth. This growth can be achieved by the removal of certain exemptions or perhaps by bringing new land and property assets within the scope of the tax.
- 4.93 This was a key issue emanating from the Innovation lab, with the view expressed that “everyone should pay something”. As noted in the earlier section this was to include an examination of all reliefs as well as those properties that are not currently included within the valuation list i.e. agricultural land and buildings. Within Northern Ireland (as well as the rest of UK), agricultural land and buildings were progressively derated in stages from the 1890s and made fully exempt from rates since 1929. It is also not rated in the ROI where it was finally fully de-rated in 1984.

- 4.94 The revenue cost of the exemption is unknown because agricultural land and buildings have not been assessed for rates in recent times; indeed, the legislation that derated agriculture did not even allow particulars to be included in any subsequent valuation list. Initial estimates suggest that with the relatively low value of most agricultural land, the sector could contribute only relatively small amounts of additional rating revenue. The reason it was historically excluded was due to the economic difficulties of the period; primarily to protect the industry and thereby national food supplies. Circumstances, of course have changed since that inter-war period, nevertheless, protection of the industry and food security remains something of strategic importance both at a UK level and even more so at a regional level in NI, given its prominence in our local economy.
- 4.95 Furthermore, it is recognised that the agricultural industry has a role beyond food production, as it helps to manage the rural environment and provides the economic underpinning of many rural communities, which aligns with Executive priorities set out in the current Programme for Government. It is also worth noting that 87% of average farm incomes within Northern Ireland are derived from the Single Farm Payment¹⁰. As a result of this, and given the wider economic difficulties facing the sector, both now and over the long term, the rating of agricultural land and buildings is not considered to be an attractive option and it is thought that the sector should remain worthy of special treatment. Therefore, the issue is not explored in any more detail in this paper.
- 4.96 Derelict land and brown field sites are other areas that currently sit outside the property tax base. Bringing this land into the existing tax base would encourage developers to make sites available for development and disincentivise 'land banking' whereby speculators retain land holdings in the expectation that values would rise. This could also encourage the supply of development land onto the market, assist housing affordability, as well as have wider economic development and regeneration benefits.
- 4.97 Indeed, this was something examined back in 2007/2008 following the Executive's Review of Domestic Rates. The policy, however, was not taken forward following the near collapse of the housing and commercial property market later in 2008 and in particular due to concerns about the impact it would have on the construction industry with many struggling builders holding stocks of land for future development.

¹⁰ The Single Farm Payment is an agricultural subsidy paid to farmers in the EU

- 4.98 One point established at that time was the fact that it could not become part of the current rating system. This is because it is inextricably linked or founded on the principle of existing value and its potential development value could not be rated. The taxing of such land would have to be outside the system of non domestic rating. This could be done but the problem remains on how to establish firm values, as these must be sufficiently reliable and defensible to charge against, given the paucity of clear market evidence. The alternative would be to levy a charge on the basis of a prescribed pre-determined formula, though the acceptability of such an approach would depend on how much revenue is to be generated.

Question 18 - Do you agree with the principle of a derelict land tax?

Question 18a - What should the scope of the tax be?

Question 18b - Should it apply to all unused and derelict sites or should it be restricted to land that is zoned for a particular development?

- 4.99 When considering what should be included within the tax base there is also an issue around whether public sector properties should be required to pay rates. Organisations such as hospitals and schools etc are currently assessed for rates and are issued with a bill. However as any liability will be paid for out of central government funds it is unclear whether it is appropriate to maintain the required administrative capacity e.g. valuation, billing etc for no corresponding net increase in central government revenue. However, this issue is complicated by the fact that District Councils will receive revenue from public sector organisations located within their jurisdiction and excluding public bodies from having to pay rates could result in less revenue for Councils.

Question 19 - Should public sector organisations that are funded from central government continue to pay rates?

Question 19a - What are the potential consequences of moving away from such an approach?

5. Alternative forms of Taxation

- 5.1 When considering alternative taxes that could be used to raise revenue locally, it is important to be mindful of the quantum of revenue that is required. As noted in earlier sections, the system of property rates raises approximately £1.1Bn annually, with just over half of this (£592m) being raised from the business community, with the rest (£580m) coming from the domestic sector. Consequently any alternative tax that is capable of raising either all or at least a significant part of this revenue is likely to lead to substantial increases in tax elsewhere.
- 5.2 The alternative systems of taxation listed below are not new and have frequently been discussed in relation to alternative systems of local taxation. Whilst this list is not exhaustive it provides an opportunity to assess the advantages and disadvantages of each and determine whether there is any realistic alternative to the current system of property rates.

Land Value Tax

- 5.3 The Land Value Tax (LVT) system is often cited as a suitable alternative to our current system of property rates. Under this model the tax is levied based on the value of land (in its optimum 'highest and best' use) rather than the improvements e.g. the buildings that are placed on it. In its purest form LVT seeks to capture betterment i.e. the benefit or added value of amenities created through public investment such as a new road or school.
- 5.4 Whilst conceptually sound and favoured by a number of leading economists, such a system has never been implemented within the UK and only operates in a few jurisdictions internationally. One of the main reasons it has never been adopted, is due to a lack of clear and reliable market evidence on which to base land values, as most of the data relating to property transactions will include both the value of the property as well as the land. In particular, the potential of the tax is linked with the quality of land registration data. The LVT system also means that valuations would have to be undertaken on a much more hypothetical basis than the current Rental Value System, so the potential grounds for challenging assessments are greatly increased; inevitably leading to wealthy landowners engaging in prolonged litigation. It would also be important to assess the impact of such volatility on local government finances in particular (as noted rates currently account for around 70-75% of their financing). For a system of LVT to work it also requires clear and up to date development control plans to provide clarity around land use zoning so that the optimum use of land can easily be identified. It would also raise significant issues for under-utilised land (which could well include agricultural land), present difficulties about who pays the bill (because identifying the owner of the predominant legal interest in urban land is not always readily apparent) and it creates a whole set of new winners and losers.

- 5.5 A LVT would also have to replace the incumbent system of property rates that has been successful in raising revenue over many years. Therefore it is perhaps understandable why no UK government has decided to introduce it, without a full understanding of the potential economic and political consequences.
- 5.6 LVT has the potential to be less easily understood by taxpayers, for example people know the value/rental cost of their property but do they know the value of their land? This is in contrast to the existing rates system, which as a longstanding system is built into expectations and decisions, rental reviews, etc. There would also be a smaller number of taxpayers with LVT. As a result there could be a higher individual burden and therefore associated issues in relation to the distribution of that burden (from the owner to those who are occupying the property through rental arrangements).
- 5.7 Proposals to introduce a LVT within Northern Ireland were examined in a recent study commissioned by the Northern Ireland Centre for Voluntary Action's (NICVA) Centre for Economic Empowerment¹¹. This report recognised the practical difficulties associated with introducing a LVT within Northern Ireland but thought that our current system of market-value property taxation could lend itself to helping in this regard. However, the report concluded by stating that "For practical and political reasons, we do not recommend that Northern Ireland introduces a system of LVT in the immediate future". However it noted that further work could be carried out into developing the required methodology and data with the view to making a LVTs introduction in the future a possibility. Such an approach is worth considering but there would be cost implications in undertaking the required preparatory work. In terms of strategic approach the potential for LVT may rest as part of a larger and more dynamic suite of taxation measures.

Question 20 - Notwithstanding some of the fundamental policy concerns expressed above, is their support for exploring the issue of LVT in more detail?

Online sales tax

- 5.8 The growth in online sales in recent years has lead to calls for an online sales tax. This is due to the perception that a traditional retailer located on e.g. the high street, may be unable to compete with an online rival due to it having a significantly higher rates liability. This is despite the fact that an online retailer will still incur property rates on e.g. distribution warehouses, offices etc.
- 5.9 Whilst there may be valid reasons for imposing an online sales tax on the purchase of goods e.g. to raise revenue, it is not clear to what extent creating a more equitable business rates environment is one of them. Indeed, businesses will choose to locate wherever they consider most

¹¹ Produced by Ronan Lyons & Andy Wightman

advantageous for their business needs and will operate whatever business model earns them their required return. This may be e.g. a traditional “bricks & mortar” business, an online business operating out of a warehouse or a combination of having both a high street presence as well as an online offering – the ‘click and collect’ approach.

- 5.10 There will be advantages and disadvantages of each and arguably it is up to individual businesses to decide what best meets their needs e.g. a physical business can benefit from footfall, advertising, consumer loyalty etc whereas an online business will face disadvantages in terms of e.g. postage & packaging costs, online payment costs, website hosting etc.
- 5.11 Furthermore, there are likely to be practical difficulties in administering an online sales tax that could lead to significant costs. It is likely that this would require online retailers throughout the UK (and internationally) to collect tax revenue from the sale of goods to customers located within Northern Ireland. It is perhaps unrealistic to consider this to be feasible locally and any moves in this direction are likely to have to be initiated at a UK level. In addition there are likely to be issues around State Aid as it is unlikely that online businesses could be treated differently to ‘traditional’ businesses that could benefit from this tax.

Question 21 - Would an online sales tax benefit businesses operating within Northern Ireland? How could this be practically implemented?
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Local Income tax

- 5.12 It is sometimes thought that a local income tax could be introduced to replace either all or part of the rating burden. However as this review is concerned with developing the best system of non-domestic taxation, it is unlikely that asking employees to subsidise business by paying more is likely to be a viable alternative. Indeed it may be more appropriate to consider any proposals for a local income tax within the context of any future review on domestic rating which is outside the scope of this review.
- 5.13 Notwithstanding this difficulty, according to HMRC statistics, the amount raised from Income Tax within Northern Ireland during 2013/14 was £2.7bn. If either the domestic or non-domestic regional rate income was to be replaced by a supplement to this tax it would increase the current income tax burden by approximately 11%. If all regional rate income was replaced by an increase in the rate of income tax locally it would increase the overall burden by over 20%. In reality, it is likely that the required increases would be even higher, as increasing income tax rates by this amount could result in significant deadweight as higher tax rates may act as a disincentive to earn additional income for some, especially at higher rates.
- 5.14 There are also likely to be significant administrative hurdles to overcome prior to introducing a local income tax. These would include devolving the relevant powers, ascertaining the correct data and developing the

administrative capacity to manage such a tax. There is also an issue around the unpredictability of the revenue streams as an income tax will be aligned to economic cycles resulting in less revenue being generated during economic downturns.

Tourist Tax

- 5.15 Tourist taxes operate successfully in a number of other European countries e.g. France, Austria & Italy. The tax is usually applied to an overnight stay and can be in the region of €1-€3 per night. Applying a similar charge of around £2 per night to a Hotel or Bed & Breakfast within Northern Ireland would generate revenue of approximately £5m-£7m per year¹², 70% of which is likely to come from visitors outside of NI.
- 5.16 However, critics of tourist taxes argue that anything that adds to the cost of visiting a country will make it increasingly uncompetitive as a holiday or short break destination. This is vitally important when considering that the tourism industry and need to attract additional international visitors is a key aspect of the Executive's Economic Strategy.
- 5.17 Indeed recent developments in this area have seen moves to reduce the costs of coming here to international visitors with e.g. the reduction in Air Passenger Duty for long haul flights. Furthermore, the tourism sector within Northern Ireland faces significant competition from the Republic of Ireland which currently enjoys a preferential VAT rate of 9% for many tourism related items, compared to a standard rate of 20% within NI.
- 5.18 Consequently DFP is of the view that it would be inappropriate to impose this tax at this time. Notwithstanding the fact that it would only raise around 1% of the revenue collected from business rates, it is likely to adversely impact the growing tourism sector within Northern Ireland.

Other Potential Sources of Revenue

- 5.19 As part of a review of industrial de-rating policy in 2007, the Economic Research Institute of Northern Ireland (ERINI) examined two potential additional ways in which to raise revenue locally. This included new transport taxes (vehicle registrations and vehicle testing fees) as well as an annual fee for the holding of either a liquor licence or a licence for gaming and betting.
- 5.20 Indeed, at the time it was thought that around £56m could be raised annually by placing for example, a £210 tax on a new car or motorcycle registration as well as a £70 supplementary fee on MOT applications. Whilst this was based on a relatively high (2006) level of new vehicle registrations it is thought that similar amounts could be raised today, especially as the number of MOTs has increased by about 44% since this analysis was first undertaken.

¹² Does not take account of deadweight from reduced visitor numbers.

- 5.21 An analysis of the liquor and gaming licence regime within Northern Ireland suggested that together, these could generate around £8m annually. This could be achieved by placing a levy on the holder of a liquor licence as well as an increase to the fee for the renewal of a licence linked to gambling (although it is recognised that the increase in online betting could make this more difficult).

Conclusion – Alternative forms of taxation

- 5.22 When considered in the context of the key principles outlined in chapter 3 it is unlikely that any of the taxes listed above would represent a significant improvement on the current system of property rates. Notwithstanding the practical difficulties of implementation e.g. state aid, devolving powers, data requirements etc, it is DFPs view that they will score lower than the existing system of property rates for most of the key principles outlined in chapter 3 i.e. efficiency, certainty, simplicity. Furthermore, with the exception of a Land Value Tax they are likely to raise relatively modest sums of tax revenue and may result in unintended consequences that could detrimentally alter the economic landscape within Northern Ireland.
- 5.23 Consequently it is the Departments view that introducing any alternative form of taxation to the existing system of property rates would be extremely challenging and be unlikely to deliver significant additional benefits. Nevertheless, the Department remains open to possible alternatives and is willing to take on board any realistic suggestion in relation to this issue.

Question 22 - Should DFP pursue an assessment of other/additional systems for raising revenue within Northern Ireland? If yes, what tax should be examined in more detail? What would the potential benefits of such an approach?
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6. Next Steps

- 6.1 This paper covers a wide range of issues, ranging from ideas for improving the current system of non domestic rates through to alternatives to the current system.
- 6.2 As noted at the start, the Department welcomes opinions and views on all matters concerned with the rating system and how it raises money from business and other non domestic sectors. It is not confined to issues mentioned in the paper nor should responses be limited to answering the questions set out in the paper. These are merely drafted as a guide to help organisations and ratepayers structure their responses.
- 6.3 It is recognised that some who respond to this consultation will have an interest in particular issues but not in others. The technical annexes have therefore been produced to facilitate this, allowing respondents to delve deeper into some issues. These do not cover all issues but if there is a demand for further technical annexes (or discussion papers) on specific issues these will be produced as early as possible during the consultation process and published on our website:
- <https://www.dfpni.gov.uk/consultations/review-northern-irelands-non-domestic-rating-system>
- 6.4 It is also appreciated that some quite radical or novel ideas are presented in the consultation paper. Clearly the detail provided in this paper is insufficient to attract well informed responses and then for these to be put forward as firm proposals for change. The Department appreciates that they will require more research, impact assessment work and further consultation on options before we get to the point of decision making. They are, however, presented at a high level in order to test the appetite for a major shift in direction for local taxation in NI; an approach which reflects the Innovation Lab's¹³ wish for this to be a genuinely wide ranging and zero based review process.
- 6.5 As well as helping to set a direction for the review, the Innovation Lab was also asked to advise on the conduct of the review process. The Lab took the view that the review needed to be informed by who pays what, who does not pay, how this influences or is influenced by social and economic trends and how it links with policy on economic development, rebalancing the economy and sectoral priorities. This paper aims to do that, recognising that the wide policy context is uncertain. For example devolution of Corporation Tax and the introduction of the proposed National Living Wage are two 'landscape changing' policies that will affect the cost of doing business in Northern Ireland but their timing and extent are not known yet.

¹³ As noted earlier in this paper the Lab involved representatives from business and commercial organisations (listed in **Annex B**).

- 6.6 The Lab participants also made the point that the Department should evaluate the level of engagement that is achieved and independently validate the conclusions in terms of the summary of responses that will be published in the consultation report. This is in order to give assurance that the summary of responses which will be published in the consultation outcomes report is a true representation of views expressed during the process. The Department is content to take this forward and has already approached the University of Ulster's Centre for Economic Policy with a view to involving them in the validation process.
- 6.7 The Lab was also concerned that the consultation should set a tone that attracts quality and evidence based responses by affording respondents the opportunity to explain their positions in a way which can meaningfully influence the outcome. Adequate explanation and feedback are key to its success.
- 6.8 The formal consultation on the issues will last for 12 weeks, and will end on 25 January 2016. Details of where to send consultation responses are set out below.

**Rating Policy Division
Department of Finance and Personnel
Carleton House
1 Cromac Avenue
Gasworks Business Park
BELFAST
BT7 2JA**

- 6.9 Responses to the consultation exercise will be made available on the Rating Policy website (see 6.3 above). A paper setting out the main issues raised during consultation will also be made available in due course. The results of the consultation exercise will be analysed and shared with the Finance Minister and the Committee for Finance and Personnel. Decisions will then be reached on the way forward by the Northern Ireland Executive.
- 6.10 The Department welcomes direct engagement with stakeholders throughout the consultation process and to that end individual business organisations may wish to use the contact details provided in this section to arrange this once they have had a chance to review the Department's paper.
- 6.11 Should you wish to contact us by e-mail, any queries and consultation responses should be sent to: ratingpolicy.cfg@dfpni.gov.uk.
- 6.12 If you require any further information about this consultation exercise you should contact Rating Policy Division on (028 9090 9325). The consultation paper can be made available, on request, in alternative languages and formats.

- 6.13 It is intended to publish a summary of the views expressed during consultation, following completion of the consultation process. This, along with all individual and organisational consultation responses, will be published on the DFP website. The Department can only refuse to disclose information in exceptional circumstances.

Summary of Consultation Questions

Number	Question
1	Are there any additional criteria that should be used to judge the suitability of the system for raising revenue locally?
2	Do you think that more frequent revaluations would lead to a more equitable rating system and improve the current rating system?
2a	If yes, how often should revaluations occur?
2b	Should the date and/or frequency of revaluations be written into legislation?
3	Do you think that all current and/or future rate supports should adhere to clearly defined criteria?
3a	What should these criteria be and what do you consider to be the most important?
4	Should industrial de-rating be retained in its current form?
4a	If you disagree, what would you recommend instead and why?
5	Do you consider that rate relief for Sport & Recreation should be awarded as at present and maintained at the current level of 80%?
5a	If you disagree, what would you recommend instead and why?
5b	Should the criteria to disregard social facility apportionment be removed or reduced from the current level of 20%?
6	Should Freight & Transport relief be removed?
6a	What would be the potential consequences of such a move?
7	Is residential homes relief still necessary to encourage the provision of care homes by the private sector?
7a	Should it be limited to organisations that can demonstrate charitable status?
8	Should empty property relief continue at 50%?
8a	Should any of the current exemptions (listed in Annex F4) be removed?
8b	Should there be any additional exemptions within the policy?
9	Is there any evidence that the parameters (qualifying criteria or duration) of the empty shops rates concession should be changed?
9a	If yes, to what should they be changed to?
10	What changes (if any) should be made to the current level of 100% non-domestic exemption?
10a	Should a reduced exemption or cap apply to those organisations competing with commercial interests?
10b	Should all charity shops pay some rates?
10c	Should charities have their relief capped so that they do not take over expensive properties simply to help the owner avoid empty property rates?
11	What, if any, changes should be made to both the hardship relief and Rural ATM exemption?
12	Should the rating system be used to pursue economic development objectives or should its primary function be to simply raise revenue? If yes, what sectors should be targeted?
12a	What are the disadvantages of such approach and do you feel that

	using the rating regime in this way would make a material difference to Northern Ireland's economic performance?
13	Would it be advantageous for District Councils to take on powers for granting reliefs?
13a	In what areas would this be considered to be beneficial?
14	Should District Councils have the ability to strike separate domestic and non-domestic rates?
14a	What would be the advantages and disadvantages of such an approach? Should District Councils continue to be compensated in full for the elements contained within the de-rating grant?
15	To what extent do you feel that a rate bill based on a property's NAV is a fair reflection of the occupying business' ability to pay?
15a	Should local revenue be raised using an alternative method that would better reflect an 'ability to pay'?
15b	What method should be used and what are the advantages and disadvantages of such an approach?
16	Should we consider taxing ownership instead of occupation for the Non-Domestic sector?
17	Should a switch to capital value be considered in more detail for Non-Domestic property?
18	Do you agree with the principle of a derelict land tax?
18a	What should the scope of the tax be?
18b	Should it apply to all unused and derelict sites or should it be restricted to land that is zoned for a particular development.
19	Should public sector organisations that are funded from central government continue to pay rates?
19a	What are the potential consequences of moving away from such an approach?
20	Notwithstanding some of the fundamental policy concerns expressed above, is their support for exploring the issue of LVT in more detail?
21	Would an online sales tax benefit businesses operating within Northern Ireland? How could this be practically implemented?
22	Should DFP pursue an assessment of other/additional systems for raising revenue within Northern Ireland? If yes, what tax should be examined in more detail? What would the potential benefits of such an approach?

Attendees at the Innovation Lab

- NI Chamber of Commerce (COC)
- Manufacturing NI
- Federation of Small Business (FSB)
- Northern Ireland Centre for Voluntary Action (NICVA)
- Northern Ireland Retail Consortium (NIRC)
- A representative on behalf of the Institute of Directors (IOD)
- The Association of Town and City Management (ATCM)
- Strategic Investment Board (SIB)
- Local Government; and
- Institute of Revenues Rating and Valuation (IRRV)

Follow up sessions also took place with:

- The Rural Community Network
- Ulster Farmers Union
- NI Independent Retailers' Association
- Association of Local Government Finance Officers (through NILGA)

Terms of reference

https://www.dfpni.gov.uk/sites/default/files/consultations/dfp/Business%20Rates%20Review%20-%20Terms%20of%20Reference_0.pdf

Historical context of current reliefs

Relief	Value	Rationale
Industrial De-rating		Derating of industrial property by 70% in Northern Ireland is an operating subsidy to industry that dates back to 1929.
Sport & Recreation Relief		Sport & Recreation Relief is held at 80%. Legislation was introduced in 1979 and extended relief in this sector as a result of the recommendations made by the Lawrence Committee. That committee was appointed in September 1976 to look at the rate liability of bodies providing facilities for sport, recreation and community activities in Northern Ireland.
Freight & Transport Relief		Occupiers of freight transport properties are entitled to 75% rate relief. It was introduced throughout the UK in 1929 but was removed in GB in 1963.
Small Business Rate Relief		The Small Business Rate Relief (SBRR) scheme is a Northern Ireland government initiative introduced in 2010, whose aim is to support the growth and sustainability of small businesses in Northern Ireland, by providing some small business owners with rate relief. Qualifying businesses will receive the relief on their annual bill during the life of the scheme. The scheme has been extended until 31 March 2016.
Residential Homes Rate Relief		Residential Homes Rate Relief was introduced in 1977. It is an application based rate relief which provides 100% relief to properties which meet the criteria.
Non-Domestic / Charitable Exemption		The exemption (100%) of charities from rates dates back to the late eighteenth and mid nineteenth centuries and individual legislative provisions and case law have shaped the application of the law from then until today.
Non Domestic Vacant Rating		Since 1st April 2004, the rating of vacant non-domestic property has been in place to encourage properties to be brought back into use. Rates are not payable for three months from either the date a non-domestic property becomes empty or the date Land & Property Services (LPS) has determined as a completion day. This is applied automatically. After the three month free period, rates will be billed at 50% of the

Relief	Value	Rationale
		normal occupied amount.
Rural ATMs		Full exemption from rates has been awarded since 2007 for automatic telling machines (ATMs) located in designated rural areas used only for the purposes of a machine which provides automatic telling and other services on behalf of a bank or building society.
Empty Shops Rates Concession		The Empty Shops Rates Concession scheme came into effect on 1 April 2012 has been extended until 31 March 2016. It was created to help get long term empty retail premises back into business. It effectively allows for 50 per cent rate relief for up to a year once a long term empty retail premises becomes occupied.
Hardship Relief		Hardship relief for non-domestic property was introduced in 2005. It is intended to assist a business recover from a temporary crisis, financial or otherwise, as a result of exceptional circumstances, and therefore some form of recovery plan will generally be required before an application can be considered.

SBRR Evaluation Report

https://www.dfpni.gov.uk/sites/default/files/consultations/dfp/SBRR%20final%20report%20v2%201%20December%202014_0.pdf

Technical Annexes

1. [Frequency of Revaluations](#)
2. [Breakdown of Rating Burden by Property Type](#)
3. [Breakdown of Reliefs and Exemptions by Property Type](#)
4. [List of NDVR Exemptions](#)
5. [Exemption for Public, Charitable or Other Purposes](#)

[Further technical annexes may be added to the DFP website if requested during the consultation period]