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Downwards transition could cost the retail sector around £2.7 billion in extra business rates

3 years ago

With high inflation rates on the cards, rating experts tell Government it's even more important to abolish downwards transition to support beleaguered sector.

Business rates experts at Colliers are urging the government to reassure businesses that the expected cut to business rates bills for the retail sector in England following the next revaluation will not be significantly watered down by transitional relief – which would cost the sector alone around £2.68 billion over the three years of the new 2023 list. And the highest inflation rates since the early 1990s have been making the situation worse.

With August CPI announced today at 9.9% and expectations inflation will be 11% for September, Colliers is urging the government to announce it will pass on the expected reductions in business rates bills following the next 2023 revaluation immediately, rather than to phase them in slowly over the three years of the new list.

In the first commercial property revaluation since 2017, retailers who currently pay about £7.625 billion of the £26 billion tax are expecting substantial reductions in one of their biggest outgoings.

Business rates tax is paid by the occupiers of commercial property based on the premises' rental value. In most regions rental values for retail property have fallen sharply in recent years, and the latest revaluation was delayed to capture the impact of the COVID-19 pandemic.

As part of each revaluation, the government looks at whether to implement transitional relief, phasing in reductions and increases. Whilst this smooths the effect of rising valuations on business rates, it funds this by limiting the benefit of falls. According to Colliers downwards transition following the last revaluation in 2017 was one of the key factors in keeping rate bills higher in the struggling retail sector than they should have been and led to the demise of retailers such as ToysRUs and Laura Ashley- even before the pandemic hit.

The retail sector overall has a total rateable value of around £15.8 billion, which according to Colliers is expected to drop to around £12.64 billion* following an estimated average 20% drop in rents.

On paper this should mean that next year from April 2023 businesses in the retail sector as a whole should be paying c £6.46 billion in business rates. Yet if phased reductions are introduced due to a downwards transition policy, Colliers estimate they will in fact pay around £8.11 billion, £1.65 billion more than they should be, and, because of high inflation, some retail businesses will see bills higher than they are paying now!

And over the three years of the list retailers that should be paying a total business rates bill of around £21.45 billion will in fact pay around £24.13 billion if downwards transition is introduced – £2.68 billion more.

John Webber, Head of Business Rates at Colliers said, “We have been campaigning for the removal of downwards transition and have strongly made our arguments to government in their recent consultation on the topic which closed in August.

“Many retailers have been battered in the last few years, and really need to see the reductions on their business rates bills immediately in April 2023 – not phased in slowly. The sector is already coming under immense pressure following the energy crisis and high business rates could tip many over the edge. Operators in the sector will be considering their business plans now for next year and will be looking closely at their future business rates liabilities, particularly now the COVID-related reliefs have come to an end. Some may well end up making drastic decisions.

He continued, “And our figures – based on an average 20% drop in rental values – are very conservative For many stores particularly in shopping centres and on non-prime high streets, rents have fallen further reaching 40% or even 60% falls. For these businesses an out of step phased reduction of their business rates bills will be disastrous.”

“There is no downward transition in Scotland or Wales, so why is it considered sensible for England?”*

“It is essential the new Prime Minister take this issue seriously and provides reassurance that rates bills next year will immediately reflect the lower rents we are seeing in the market today – providing incentives for businesses to keep or expand space and for property investors to invest in the sector. Without this reassurance, the government’s “levelling up agenda” will be meaningless and the revival of the high street will be pie in the sky thinking.“