Business Rates call for evidence – tranche 2

Date: 30 Oct 2020
To: BusinessRatesReview2020@hmtreasury.gov.uk

Introduction and background

1. The British Property Federation (BPF) represents the real estate sector – an industry which contributed more than £100bn to the economy in 2018 and supported more than 2 million jobs[1]. We promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers and developers of real estate as well as those who support them. Their investments help drive the UK's economic success; provide essential infrastructure and create great places where people can live, work and relax.

2. This submission builds on our response[2] to the first tranche of questions in the government's call for evidence. We believe that it is sensible to include a tax based on up to date market rents in the bundle of taxes borne by business. However, the system must be able to respond to changes in market rents much more quickly to avoid stifling business – and to ensure that private led investment in our towns and cities remains viable.

3. In order to allow business rates bills to reflect market rents more quickly, the Valuation Office Agency (VOA) must be equipped to conduct valuations more frequently, and ideally annually. This will require significant investment to modernise the VOA's IT infrastructure and processes - to enable greater automation and digitalisation where appropriate. The funding required for this transformation must be reflected in the Government's upcoming spending review.

4. Our response is structured as follows:

   Appendix 1: Key recommendations

   Appendix 2: Response to tranche 2 consultation questions

5. Please do not hesitate to get in touch if you require further information.

Rachel Kelly
Assistant Director (Finance)
020 7802 0115
rkelly@bpf.org.uk

[1] https://bpf.org.uk/media/2659/16688-bpf-economic-footprint-report-140819.pdf
[2] https://bpf.org.uk/media/2712/bpf-response-bus-rates-cfe-tranche-1-sept-18-2020.pdf

Appendix 1: Key recommendations

1. **A tax based on up to date rental values is sensible to include in the bundle of taxes**
   A tax based on *up to date* rental values is a reasonable proxy for the value generated by occupying that premises - and therefore a reasonable tax base from which the government can extract some value. The crux of the issue with the current system is that it is not responding to changes in market rents quickly enough. We have not advocated for an online sales tax nor a capital values tax as neither of these alternative taxes would address this fundamental concern.

2. **Revaluations should take place more frequently, ideally annually.**
   More frequent revaluations are essential in order to ensure that the business rates are responding to market rents. In order to achieve this, there will need to be greater provision of information to the Valuation Office Agency (VOA) by ratepayers and greater transparency of relevant information between the VOA and rate payers.

3. **The business rates system must not create barriers to the decarbonisation of our property stock**
   Retrofitting our property stock is one of the biggest challenges our country currently faces if it is to meet carbon neutrality targets. It will require all taxes and regulations working in tandem to ensure that businesses are supported in their efforts to improve energy efficiency of our buildings and reduce our reliance on fossil fuels.

Covid-related 'emergency' measures

Given the above overarching recommendations are likely to take some time to implement, it is important that the government continue to offer business rates support for those business worst affected by the pandemic. In particular, we would draw out the following measures to prioritise in the short term:

4. **Extend the Expanded Retail Discount**
   The Government should provide certainty to businesses that whilst reduced trading persists as a consequence of the pandemic, business rates relief will continue to be available. This relief should be extended to empty units, given it continues to be challenging to re-let units in many sectors at this time.

5. **Abolish downwards phasing**
   The phasing mechanism runs completely counter to the objective of a revaluation – which is to bring rates bills more into line with market rents. The transitional mechanism has been particularly detrimental to the retail sector over the last decade: while rents have come down by around 50%[3] in some parts of the country, rates bills have continued to go up – illustrating just how out of kilter rates bill are today.

6. **MCC claims should be coordinated by the VOA**
   The VOA should proactively coordinate the valuation of Material Change in Circumstances (MCC) claims – and ensure that every business that is entitled to an MCC reduction receives it speedily, without the need for business to make a formal challenge or appeal.

[3] https://www2.colliers.com/en-GB/Research/Midsummer-Retail-Report-2019

Appendix 2: Responses to consultation questions

Tranche 2 questions

Valuations and transitional relief

10 What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?

2. Yearly valuations would better enable the business rates system to respond to changes in market values. The changes necessary to allow for annual revaluations include:

2.1. A requirement for all lease agreements and details of amendments to a lease to be registered or formally supplied to the VOA at each lease event.

2.2. A system to ensure that the VOA is notified when structural changes are made to a building or new developments take place.

2.3. For the VOA to be required to justify its valuation assessments to the ratepayer using the relevant rental evidence it has been supplied with and without the need for a ratepayer to have first submitted a Check or a Challenge (ideally this information would be supplied at the same time as draft assessments are notified prior to each revaluation).

11 What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?

3. ***What could make a banding system more viable?***

3.1. Businesses would be more amendable to slightly less accurate valuations if the tax rate was significantly reduced. At a tax rate of 50% (and also at the tax rate of 35% that we suggested would be appropriate in our tranche 1 response) it is imperative that the valuation is accurate and reflects the individual characteristics of each property.

3.2. Given the range of rateable values across the country, there would need to be a large number of bands to accommodate this range - therefore, it's not clear whether banding would simplify the process – and indeed, appeals could become more likely which would take up greater VOA resource.

4. ***How could more frequent revaluations be conducted?***

4.1. In addition to the changes to the system identified in response to question 10 and 12 to facilitate greater sharing of information between the VOA and relevant ratepayers, the VOA will also require significant investment principally in IT but also in human resources initially during the period of transition to annual revaluations. The skill sets required by VOA staff will include both traditional surveying and valuing skills – but also those with IT and data analysis skill sets, who are equipped to analyse the larger data sets that will be available to the VOA.

4.2. Annual revaluations would significantly reduce the incentive for businesses to appeal – which would release significant capacity in the VOA in the longer term.

12 What are your views on changing the valuation process or the information provided to the VOA, to enable more frequent revaluations?

5. We support a greater provision of information to the VOA to enable it to have the data necessary to conduct a valuation. There are two primary sets of data that the VOA needs access to in this regard: lease information and details of any capital improvements. These naturally lend themselves to slightly different approaches to data collection – we set some suggestions below which seek to balance the need for the VOA to have access to relevant information, whilst keeping the additional reporting or compliance burden of ratepayers to a minimum.

5.1. *Lease information* - The VOA should be automatically provided with lease data when new leases are granted and when existing leases are amended at lease events. In order to reduce the administrative burden on business, the administration could be incorporated with an existing compliance process, such as the SDLT filing return ,for example, to ensure that tax payers are only supplying data to government once – and this information would be shared with both HMRC and the VOA as appropriate.

5.2. *Capital improvements* – It is challenging to require ratepayers to disclose to the VOA where a capital improvement has impacted on a rateable value – because this requires professional judgement and detailed knowledge of the rules. Therefore, as a starting point, the VOA should make use of existing information sources that are already held within central and local government, which indicate when building works have been done or where a capital improvement has been made to a building. For example, local authorities will grant planning permission before construction works take place, and a fire safety inspection will be carried out after a new development is complete. In addition, ratepayers are required to disclose capital expenditure separately in their corporation tax return – which will also give an indication of when improvements have been made to a building. The VOA could make use of these existing sources of information within central and local government, to either indicate where a new building should have a survey or site inspection – or simply to allow data requests to taxpayers to go out in a more targeted way.

13 What are your views on the relative importance of the period between the AVD and compilation of the list vs. more frequent revaluations?

6. Both are equally important in ensuring that rateable values are as closely aligned as possible with current market rents. In addition to striving for annual revaluations, we believe that in this digital day and age, it should be a realistic aspiration to work towards a one year period between values being assessed and coming into effect (the AVD).

7. The claimed advantage for less frequent revaluations is that once rateable values have been set at revaluations, it allows businesses to budget for future rates bills with a good degree of certainty until the next revaluation. However, it is more important that the bills are a fair reflection of current market

circumstances and precise budgeting becomes far less critical if one had annual revaluations as rates bills wouldn't fluctuate greatly one year to the next. It is the volatility of infrequent revaluations that drives the desire for certainty over future bills.

14 What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?

8. As a body representing property owners, our members' premises will predominantly be valued under the 'rental comparison basis'. We believe that the current approach to valuation is sensible, and creates fairness by using a common valuation definition and date. While we can see the attraction of aligning rates with actual rents paid, there is a risk that there could be some inequity in tax paid by broadly similar properties. We would therefore advocate for keeping the current 'rental comparison basis' – but with annual revaluations and a one year AVD gap, to ensure that the rateable values are naturally much more closely aligned with market rents.

9. Notwithstanding our overarching support for the current approach, we would highlight the following areas for improvement:

9.1. To the extent it will take time to move to annual revaluations, downwards transitional phasing should be abolished immediately. Transitional phasing runs completely counter to the objectives of a revaluation – as it delays the time it takes for a premises to be taxed according to their current value.

9.2. The current approach to valuation does not acknowledge that building a cohesive place with a diverse mix of occupiers and a sense of community will involve attracting occupiers, businesses, charities etc with variable levels of profitability and serving different functions in our communities. Landlords recognise the importance of this mix of tenants and will often offer significant rent free periods or rent discounts to some occupiers that are perhaps just starting up or add a beneficial tenant mix to a locality but are unable to afford the level of rents payable by other businesses. It would be great if the business rates system could better reflect where landlords offer rent free periods or discounts – to help support those new businesses starting up or occupiers whose main purpose is to provide a social rather than commercial benefit.

9.3. Where a service or amenity is provided for free (such as a car park or toilet) – not only does this have wider benefits for attracting footfall to the town centre, the value of that facility will also be captured in the rents of the local businesses, who have factored in these local amenities and services in the rent they are willing to pay. Therefore, there is likely to be a double taxation of value where these assets are given their own separate valuation, and therefore we believe that the valuation approach to free or discounted services and amenities for local communities should be reconsidered to ensure that they are not double taxed.

9.4. Finally, we would highlight that the pandemic has accelerated a trend towards a higher element of turnover rents, particularly within retail and increasingly within leisure and hospitality. It is important that the VOA is able to respond to this shift in leases and how they should be valued for business rates purposes.

15 If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?

10. No comment.

16 What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

11. The transitional phasing mechanism runs completely counter to the objectives of a revaluation, which is intended to bring rateable values more closely into line with market rents. For the retail sector in particular, where rents outside of London have fallen by almost 50%[4] in real terms in the last decade, this mechanism has meant business rates bills on many high streets are unsustainably high – and in some cases has prevented any leasing activity at all, even at nil rents.

12. We are not aware of any other country that has a similar transitional mechanism in place – and given the egregious impact this mechanism continues to have on our high streets in particular, we continue to call for the downwards transitional phasing mechanism to be abolished without delay.

13. We would note that if we had annual revaluations, the changes to rates bills would be gradual and regular and therefore a phasing mechanism would not be needed.

14. We acknowledge that there is still a benefit in providing relief to those businesses who see large and unexpected uplifts in their rates bills – and if Government are still minded to offer this relief, this should be centrally funded. Government will be able to take a holistic view of what the benefits are for that relief, and therefore what revenue stream makes most sense to pay for it.

4.2 Plant and machinery and investment

17 What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?

15. *Sustainability improvements* - There is significant anecdotal evidence of investors that have not included solar panels on their building, because the uplift in business rates would completely outweigh the energy efficiency benefits. A memorandum of understanding between the VOA and the STA details the ratings impact of investment in solar panels - https://www.solar-trade.org.uk/wp-content/uploads/2016/09/Summary-of-2017-Solar-PV-Memorandum-of-Agreement-redacted.pdf

16. In respect of energy efficiency improvements, in some sectors where rents are already under pressure – notably retail, there is absolutely no appetite from tenants to pay more rent for a property with

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[4] https://www2.colliers.com/en-GB/Research/Midsummer-Retail-Report-2019

higher levels of energy efficiency. Therefore, it is incredibly important that the tax rules do not create any additional barriers to this much needed retrofitting activity.

17. *New development* - Empty rates bills create a huge disincentive for speculative development or significant refurbishments, particularly outside of London. The risk that a new development will not be let immediately and will suffer empty rate bills once it's complete makes a speculative development a far riskier proposition, and therefore less likely to happen.

18 Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?

17.1. The plant and machinery regulations were introduced in their current form in the early 1990s. Since then, there have been significant changes in how we do business and the typical plant and machinery used in a building. We recommend a wider review of the plant and machinery regulations to make sure they are up to date and reflect modern ways of doing business – and importantly, support the zero carbon agenda. Furthermore, we recommend that these regulations are reviewed more regularly going forward – we would suggest that every 3-5 years would be appropriate.

18. Given that a full review of these P&M regulations could take some time, we would recommend that the following items are excluded from valuation in advance of the next revaluation:

18.1. Any plant and equipment used in onsite renewable energy generation and storage. We would not want to be prescriptive here as new technologies will be developed – but it should at least include renewable energy generation plant like solar panels and wind turbines and energy and heat storage equipment, including 'ice banks'.

18.2. Electric vehicle charging points (even a time limited exemption may help ensure that business rates are not a barrier to the roll out of this much needed infrastructure).

19 What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?

19. No comment.

20 What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?

20. Valuing an intrinsic part of a building separately, when there is no transaction evidence for these separate parts could pose challenges in ascertaining a valuation, and for that reason, we have not advocated for excluding all plant and machinery from valuation.

21. We don't foresee this to be as big a challenge in the context of our recommendation to exclude energy generation and storage plant – primarily because most buildings being used by a business will have a source of energy anyway, therefore it is not anticipated that the valuation impact of switching to a

renewable energy source of energy will be significant. It is possible that the sustainability credentials of the building could impact on the rental value of the building – which may make exclusion of some plant for business rates purposes slightly more complex. However, we do not think that the complexity would be insurmountable – and certainty justifiable given the importance of retrofitting our property stock in order to achieve our net zero carbon targets.

21. How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?

22. Business investment and growth will be stimulated by a fairer, more transparent system which accurately reflects market rents – this would be achieved to a large extent by fixing the multiplier at a fair and sustainable level, and carrying out more frequent revaluations.

23. One way that landlords often incentivise new occupiers to set up in business, will be to offer a rent free period at the start of their lease – to reflect the fact that many smaller start-ups especially will have less capital initially, until they have started to trade. It would be great if the business rates system could also reflect this support in some way. In addition, we would advocate for something similar to the Scottish business growth accelerator to stimulate new investments – we would recommend a 3 year delay before a new development or significant refurbishment is factored into increased rates bills.

24. Empty property rates (EPR) bills are another aspect of the system that disincentivises investment – especially speculative development. Speculative development is a development which goes ahead without a ‘pre-let’ to a specific occupier. It is generally a very risky development proposition and London is the only place that sees significant levels of speculative development in the UK. Ultimately, this can lead to shortages of modern, energy-efficient business accommodation in those parts of the country where levelling up is most needed.

25. If the risk that a development would incur empty rates bills as soon as it was complete was removed, this would help alleviate one of the significant risks for the developer/investor. We would also reiterate the recommendations we made in respect of EPR in response to the first tranche of questions – the rate free period should be much longer than 3 months, to reflect the time it takes to re-let a property, and the EPR should be discounted by 50%.

22 How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?

26. Decarbonisation of the built environment is a substantial task – and will involve a number of fiscal levers and other incentives and regulations all working in tandem to create a meaningful impact over a long period. In particular, we believe that capital allowances could play a more significant role in providing relief for energy efficiency and other sustainability improvements much more quickly for commercial property – and VAT could be an important lever in retrofitting residential housing.

27. We recommend the following policies to enable the business rates system to better support the decarbonisation of buildings:

27.1. A three year delay to an uplift in rates bills following a new development or refurbishment. (This reflects the fact that many energy efficiency improvements often take place as part of a larger refurbishment project).

27.2. A wider review of the plant and machinery regulations to make sure they are up to date and reflect modern ways of doing business – and importantly, support the zero carbon agenda.

27.3. An exclusion for renewable energy generation and storage technologies, and a carve out for electric vehicle charging units (at least for a time limited period)

5.1 Valuation transparency and appeals

23 What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?

28. The valuation process is not transparent to ratepayers at an early enough stage, which leads to a greater number of appeals and general uncertainty and imposes a significant burden on businesses who need to collate rental evidence to check their valuation and then to challenge it.

29. We believe that any data on comparable properties that have been used to calculate a ratepayer's rateable value should be disclosed transparently alongside the valuation – including disclosure of any other judgements that have been applied by the VOA in reaching the proposed rateable value. This upfront transparency will save a significant number of checks and challenges in the system, thereby freeing up VOA resource in the long run.

24 What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?

30. We believe that there should be greater provision of information to the VOA on every lease event - and at an appropriate point in time, the VOA should also be notified when landlords or tenants have invested in structural changes or improvements to their properties. (We set out some suggestions on possible data collection approaches in response to question 12).

31. We do not consider that this information should be made publicly available, to avoid sharing commercially sensitive information. However, as noted above, there should be greater sharing of information of relevant and comparable properties with ratepayers whose rateable values have been influenced by these comparable properties. We believe that this up front transparency with relevant ratepayers would save a significant number of appeals in the system – as many Check and Challenges that are raised are simply to ascertain the basis of the property valuation. By making the appeals system more efficient, this would further reduce the VOA's workload.

25 What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?

32. No comment.

5.2 Maintaining the accuracy of ratings lists

26 What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?

33. It would make the system more efficient if the VOA were provided with lease data on every lease event. We set out how this could be approached in response to question 12. Removing the need for the VOA to collect this data will allow the VOA to focus its resource on analysing a full and comprehensive data set, and carry out valuations.

27 What are your views on making a register of commercial lease information publicly available?

34. We would be concerned about a publicly available lease register as there are cases where lease information will be commercially sensitive.
35. As per our response to question 24, we believe that it is most important that the VOA have access to a full and comprehensive data set and any ratepayer that is impacted by another property's rateable value is provided that information alongside their own valuation as a matter of course.

28 What are your views on introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?

36. As per our response to question 12 and 26, we would be supportive of the VOA being provided with more information as a matter of course – although consideration should be given to minimising the administrative burden on business, to ensure that they are only providing information to the Government once. At the very least, information should be provided to the VOA on a lease event as a matter of course.
37. It will be harder for a ratepayer to ascertain when a physical change to a building will result in a change to the rateable value, as in many cases, this will involve professional judgment. However, in the first instance, the VOA could make better use of existing sources of information within central and local government to ascertain where improvements to a building are likely to have been made e.g. where planning permission have been granted, or capital investment has been made by a business (as disclosed in tax returns). This information could be used by the VOA in the first instance to better target where to carry out physical surveys or to approach business for further information.

5.3 The billing process

Questions 29 to 32.

38. No comment.

6 Exploring alternatives to business rates

33 What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?

39. Our main criticisms of the business rates system are that the tax rate is too high and that rateable values do not reflect market rents quickly enough. We do not see how changing to a capital values tax will help address these fundamental concerns, and therefore we would not advocate for this as an alternative to the current system.

40. Our primary concerns with a CVT are set out below:

40.1. Capital transactions are far less frequent than lease transactions – and therefore there would be much less transactional evidence to feed into valuation. This is likely to make valuations even more contentious which is likely to increase appeals.

40.2. In addition, while capital values are predominantly derived from rental values to a large extent – they are also significantly influenced by yields in global financial markets. These are outside of the control of an occupier and the market rent that they pay – which may result in valuations which are harder to understand and more likely to be appealed.

40.3. There are varying levels of property ownership in the UK – from a freeholder to a 999 year leaseholder, to a 125 and 25 year leaseholder. There would be some challenges with identifying the right 'owner' to levy the tax on.

40.4. A tax levied on the landlord would make it much harder for government to offer reliefs to sectors at times of need – as has been provided so quickly to retail and leisure during the current pandemic.

40.5. Finally, the transition would be incredibly disruptive to the property industry – requiring a wholesale change to the basis of lease agreements. It is not clear how this disruption can be justified with no clear evidence of the benefits it might bring.

34 What evidence is there of the benefits that replacing business rates with a CVT would have in practice, for example, on business investment and growth?

41. Levying the tax on capital values would in no way address the primary concerns with the current system – that the burden is too high and that it is not responding quickly enough to changes in market rental values.

42. Given it would be even harder to collate market data on capital values (because the transaction volumes are so much lower than lease transactions), we do not think that a tax based on capital values will go any way to address the fundamental problems within the current system – and could even make it worse. This would have a negative impact on investment and growth.

35 How can land and property be valued fairly and efficiently under a CVT in England? What evidence is available to do this?

43. It is more difficult to ascertain the capital value of land and property – because the transaction volumes are far less frequent than lease transactions – and they can be influenced by yields in global financial markets as well as rent. This is one of the significant merits of the current system based on property rental values.

36 How would replacing business rates with a CVT affect the distribution of taxation?

44. Around 55% of commercial properties are rented – and around 45% are owner occupied. There would clearly be no impact on the 45% that is owner occupied. We do not anticipate that in the long run there would be a significant impact on the distribution of the tax for those properties that are rented (we would expect rents to adjust where they can to reflect the additional costs of the landlord in bearing the CVT). However, there would be a highly disruptive "transition period" during which time property owners would bear the full cost of CVT until such time as rents can be renegotiated (e.g. when a lease expires, or when there is a rent review).

45. If the tax was borne by the landlord directly, the government would find it much more difficult to provide reliefs to businesses through the business rates system – e.g. as the government have been able to do very effectively for retail, leisure and other occupiers during the current pandemic.

37 What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the government ensure effective collection from and compliance by these taxpayers?

46. There are fewer landlords than occupiers, so conceptually it seems like an easier task. However, in practice in could be very complicated – as it would be necessary to identify the owner, which will be harder than identifying the occupier in most cases. Furthermore, there can be more than one owner of the same property with different stakes. E.g. it could be complicated to determine who should be liable to the tax in a case where there is a freeholder, an owner with an 100yr lease, and an owner with a 25 year lease, for example.

38 What lessons can be learned from other countries experiences with CVTs?

47. No comment.

39 What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?

48. We believe that it is sensible to include a tax based on up to date property rental values in the bundle of taxes paid by businesses – not least because there is a large amount of rental transaction data and it is indicative of the value that can be generated by the premises.

49. However, in order to avoid stifling business, the burden must come down, and revaluations should better reflect market rents in closer to real time.

Residential property tax

50. While we acknowledge that residential property taxes are not within scope of this consultation, we would note that the recurrent tax on residential property has historically been much lighter than the equivalent tax on commercial property. To that end, the council tax bands could be reassessed with a view to adding higher bands, in order to help fund a reduction in the business rates burden.

51. Furthermore, we consider that the value for money of the primary residence relief should be reviewed. The value of the capital gains tax relief on primary residences was estimated to have cost the government almost £28bn in 2017/18[5]. As part of a broader review of property taxes in the UK, the primary residence relief could be reduced or abolished in exchange for both abolishing SDLT and significantly reducing the business rates burden.

40 What would be the benefits and risks of introducing an online sales tax?

52. It is crucial that the tax system continually evolves to ensure it is extracting value in a fair and sustainable way from the modern economy. While property represented a good proxy for where value was generated in the economy in the past – this relationship is rapidly weakening as the economy becomes increasingly digitalised and some businesses can make profits from very little floor space.

53. However, it is clear that a coordinated international effort will be needed to address the question of how to fairly tax the global digital economy, and we welcome the ongoing efforts of the OECD in this regard.

54. It is possible that a form of online sales tax may be part of the solution – particularly given the difficulties in attributing taxes on profits to a specific jurisdiction. It is difficult to comment in detail given the limited detail in the consultation and a full understand of government's objectives (and indeed, such a measure would warrant a stand-alone consultation in its own right). However, we have set out some high level considerations and reservations below in respect of the broad premise of an online sales tax:

54.1. **Online retail is still retail** – many retailers do not distinguish themselves between online and physical businesses – but rather see themselves as one business servicing their clients through a

5 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737597/Dec_17_Main_Reliefs_Final.pdf

number of different channels. Therefore, if the government's objective with this tax is to support the retail sector, on the face of it, this tax is unlikely to help.

54.2. **Logistical concerns** – the Treasury Select Committee raised some concerns around how simple the tax would be to administer in practice – in particular, how do you know when a sale is online or not? E.g. if a customer bought a product online, took it back to a store, exchanged it for a different item which was collected from a click and collect point etc.

54.3. **The economy will continue to evolve** – the business rates system needs to be agile enough to respond to future changes in the economy. A solution focused on tackling a perceived imbalance in the way different types of retail are subject to business rates will not address the underlying issues with our business rates system to allow it to respond to future changes in the economy. Covid is having profound implications for how we use other types of property – some of which may transpire into lasting trends. The business rates system must be agile enough to respond to this.

41 Which services and products do stakeholders think should be subject to an online sales tax and what evidence is there to support this?

55. No comment.

42 What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?

56. No comment.

43 How could an online sales tax affect the distribution of taxation?

57. No comment.