



Conservatives
It's time for change

Richard Merrin slams Government's hikes to business rates during recession

"Higher business rates will drive local firms and small shops to the wall and Cllr Featherstone remains silent"

The Government was accused today of pushing local firms and small shops to the wall by hiking their business rates during the recession. Business rate demands are being sent to local firms across Haringey and many are seeing startling rises in their bills this year, with the prospect of even bigger hikes next year. After rent and staff, business rates are the third biggest cost that local firms face.

This comes as a survey by the Local Government Association has found that 4 out of 5 councils are reporting an increase in empty shops in town centres.

Richard Merrin said: "Gordon Brown is dragging local firms down his road to ruin. It is the height of economic madness to be increasing taxes on local firms in the depths of a recession. Local shops in Haringey will be hardest hit by these rises, leading to boarded up shops on our high street and yet more job losses. And have we heard anything from Cllr Featherstone – no!"

Richard Merrin, Conservative Parliamentary Candidate for Hornsey and Wood Green criticised a number of Government policies that are pushing up tax bills:

- **Inflation-busting rise this April:** Business rates are to rise by 5 per cent this April, despite the forecast of RPI inflation to be negative, because of a statistical quirk in the way business rate rises are calculated.

The burden of rates will go up by £1 billion a year. The average business rate bill in area is currently £7506; this rise will push it up to £7881.

- **End of transitional relief from the 2005 revaluation:** Transitional relief from the 2005 business rates revaluation has now expired, pushing up bills for many firms in April 2009 by two or three times more, and raising another £100 million for the Government.
- **Small shops to be hammered by the 2010 revaluation:** The April 2010 rates revaluation will hit the retail sector hard, because of the Government's decision to use April 2008 as the snapshot for the revaluation – when relative retail rents were artificially high compared to industrial and office rents. The resulting rating hikes could push many small shops out of small business rate relief, which means rocketing bills.
- **New empty property hike:** When Chancellor, Gordon Brown slashed back rate relief on empty properties. As the recession bites, firms are unable to rent out vacant property, but still have to pay rates in full despite no income from rent. This has increased rates by £1 billion in 2008-09 and by a further £715 million from this April.
- **Poor take-up of small business relief:** Small firms are not claiming small business rate relief because they have to fill out complex paperwork. In Wales, small business rate relief has been automatic since 2007.

Notes to Editors

“GHOST TOWN” BRITAIN

The Local Government Association has warned that 4 out of 5 councils are reporting an increase in empty properties in town centres, and two-thirds of councils warned that these empty properties are having a significant or moderate impact on high streets (LGA Press release, *Urgent action needed to stop high streets becoming 'ghost towns'*, 28 February 2009).

INFLATION-BUSTING RISES THIS APRIL

- **Business rates up 5%:** Business rates are to rise by an inflation-busting 5% from April 2009. This is since bills are based on RPI inflation in September 2008, when it was unusually high. This is the highest rate

since the introduction of the modern system of business rates back in the early 1990s. However, RPI inflation is now falling and was forecast in the Pre-Budget Report 2008 to be negative (-2¼%) in 2009-10.

- **An extra £1 billion:** The standard business rate multiplier will rise from 46.2p to 48.5p, and the small business multiplier from 45.8p to 48.1p (*Hansard*, 12 March 2009, col. 750W). This will push the average business rates bill in England from £11,239 in 2008-09 to £11,801 in 2009-10, raising an additional £1 billion in revenue in England. The Government has refused to produce an impact assessment of the effect of the changes (*Hansard*, 12 March 2009, col. 750W).
- **End of transitional relief – another £100 million:** In addition, transitional relief from the 2005 revaluation is due to expire, in the fifth year of the five year revaluation cycle. The end of transitional relief will increase bills by a further £100 million this year, doubling or trebling bills for some firms (*LGA press release*, 23 March 2009). In previous revaluations, transitional relief lasted for five years, not four.

RATE REVALUATION

- **Retail sector to be unfairly penalised:** The 2010 business rates revaluation will be based on rental values in April 2008. The change in bills will thus depend on the relative change in rateable values from 2003 to 2008. However, unlike in previous revaluations, the retail rental sector was artificially buoyant in April 2008, relative to the office and industrial sectors. Since then, the credit crunch has brought retail rents down to a closer alignment, relative to 2003 values.
- **Massive hikes for small shops:** But if the revaluation goes ahead using the current methodology, the net effect will be to push up significantly Rateable Values (and thus bills) for the retail sector. In many cases, this could push small shops out of being eligible for small business rate relief, and lead to massive increases in bills for shops – pushing many over the edge.

EMPTY PROPERTY RATES

- **£1 billion hike in empty rates:** Without proper consultation, in the 2007 Budget, Gordon Brown slashed back empty property rate relief for commercial and industrial premises. The empty property tax rise will raise an estimated net £950 million in extra tax in 2008-09 (HM Treasury, *Budget 2008*, p.128). There was no offsetting reduction in rates elsewhere. The tax changes came into effect in April 2008 – just as the economic downturn was starting to bite.
- **Compounding effects of recession:** This tax rise is particularly harmful in a recession, since firms are unable to rent out vacant property due to

lack of economic demand. They must therefore pay for the cost of business rates, without any income from rent to pay for it. Large and small firms now have an incentive to demolish buildings as a result.

- **Pre-Budget changes will not help:** In the 2008 Pre-Budget Report, the Government announced that it would increase the threshold to £15,000 for 2009-10 only (HM Treasury, *Pre-Budget Report 2008*, p.70). Yet the Government is merely exempting some small firms from this tax for *one* year only, meaning tax hikes in 2010-11 onwards. When introduced, small business rate relief never applied to empty property business rates (*Hansard*, 3 November 2008, col. 132W), so the temporary changes only undo one manifestly unfair aspect of the tax changes. The reduction in revenue is only £185 million in 2009-10 (*Pre-Budget Report 2008*, p.194). This compares with the forecast total of £900 million in 2009-10 (*Budget 2008*, p.128). Hence, the net increase is still £715 million (albeit, even this net revenue may be reduced if firms avoid the tax by demolishing their buildings).

SMALL BUSINESS RATE RELIEF

- **Small firms not claiming:** In England small businesses are generally entitled to small business rate relief if the rateable value of their premises is less than £15,000 (£21,500 in London). The discount is worth up to a 50 per cent reduction on their tax bill. However, small firms must fill out a form to claim the relief – it is not automatic. The Local Government Association has estimated that some 870,000 firms are eligible for the rebate but only less than half have claimed (*LGA press release*, 1 June 2006). By contrast, in Wales since 2007, small business rate relief is automatic.
- **Calls to make it automatic:** Conservatives are calling for small business rate relief to be made automatic. But the Government has refused to support a Private Members' Bill by Peter Luff MP which sought to legislate to make this happen.