# Real Rates Reform

**HOLBA's Combined Business Rate Proposal**

**Evolving the business rate system to meet the Government's objectives in an increasingly digital economy**

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## Introduction

Reforming business rates has proved difficult. None of the recent attempts by Governments in 2015, 2017 and 2019 lived up to their expectations of radical reform to reduce the burden of business rates on businesses.

The Budget announcement of new multipliers to give high street businesses a permanent relief has not been well received by business and seems unlikely to meet the Government's objectives.

Heart of London Business Alliance has asked Town Centre Vitality Agency, Attis, to look at a simpler, more effective and less bureaucratic way to meet the Government's stated objectives as part of its wider response to the Government's consultation.

The 'Combined Business Rate' proposal is meant to demonstrate that there are alternative, realistic and deliverable ways to transform business rates which are worth exploring in more detail and that will support the high street by widening the local government tax-base to include more equitable contributions from online businesses.

## About Attis

Attis is a new form of consultancy that takes a mission-led approach to generating town and city centre vitality, vibrancy and sustainability by creating innovation through Mission Teams of diverse expertise.

# Real Rates Reform – HOLBA's Combined Business Rate

## 1. Background

1.1 The Government is seeking to reform business rates to achieve its stated objectives.

- "Labour will replace the business rates system, so we can raise the same revenue but in a fairer way. This new system will level the playing field between the high street and online giants."[1]
- "Replacing our outdated system of business rates with a fair system fit for a modern economy."[2]
- "The government's objectives are protecting the high street …..and creating a fairer system."[3]

1.2 Since COVID-19, the government has given a rebate to retail, hospitality and leisure (RHL) businesses. The decision to provide a rebate, and at what level, was taken at Budget time each year. In 2025/26 it was set at 40% with a cap of £110,000 per business.

1.3 To make this discount permanent, the Government announced in the 2025 Budget two new, lower RHL Multipliers which can be set at up to 20p (40%) below the Standard and Small Business Multipliers. The cost of this lower RHL rate has been transferred from the Treasury to business rate payers through the introduction of a new Higher-Value Multiplier for properties with a rateable value (RV) of over £500,000. This can be set at up to 10p (20%) higher than the Standard Multiplier and applies to around 20,000 (1%) of the 2 million plus businesses in England.

1.4 The introduction of this new permanent lower tax rate for RHL businesses coincided with the results of the 2026 three yearly revaluation of RVs, announced immediately after the Budget. In the Budget the Chancellor announced reduced Multipliers for 2026/27, stating these were now the lowest tax rate since business rates were introduced in 1990.

1.5 But rates bills are the product of RV x the Multiplier. Despite the lower multipliers, a combination of large RV increases following revaluation, especially for hospitality businesses, and the Government's decision to reduce the RHL relief from 40% to 10%, means that many high street businesses will see their rates bills rise, not fall, in 2026.

1.6 The Treasury has provided a transitional relief scheme, but this still leaves big rate rises. And the relief is only temporary, being phased out over a three-year period.

1.7 Here are just a post-Budget few reactions:

> "British pub bosses have warned the Chancellor she has "deeply misled" the industry over business rate reform as they claimed the sector faces an annual £160 million annual tax burden, despite promises of relief" Sunday Times December 7th 2025

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1 "Labour Party Manifesto", June 2024

2 Speech by Rt Hon Rachel Reeves MP, Labour Party Conference, September 2024

3 "Transforming Business Rates", HM Treasury Consultation Paper, October 2024

"The British Beer and Pub Association said community pubs were facing an average 63% increase in business rate bills, compared with just 7% for distribution warehouses" Sunday Times December 7th 2025

"The Dog and Parrot, a long-standing music bar near Newcastle railway station, is in line for a 431% rise in its rateable value, from £37,000 to £199,000" Times December 6th 2025

"The rateable value of the Grey Street Hotel, Newcastle, has gone up by 113% from £48,750 to £104,000" The Times December 6th 2025

"At the Chamberlain Hotel in the City of London, the rateable value has gone up from £261,000 to £741,000 – a 184% increase. This means its rates immediately go up from £156,000 to £219,000 and the only reason it does not go up more is because of transitional relief "support"" The Times December 6th 2025

"Our new analysis shows the average pub faces a 15% rise in business rates next year, increasing to £7,000 more by 2028/29 and £12,900 over three years. Hotels are even harder hit with bills rising £28,900 next year and £111,300 by 2028/29 totalling £205,200 extra over three years" UKHospitality December 4th 2025

## 2. The Alternative – relevant factors

2.1 Business rates are the way in which businesses operating in the UK make their contribution to the funding of local government services. All businesses, in different ways, benefit from public and local government services, not just directly in terms of policing, transport, waste and environment services, planning and licensing but also indirectly through services such as education, social care and housing that their employees and customers – their community - use.

2.2 When business rates were introduced in their current form in 1990-91, the digital revolution had not really started. All businesses were what we now call "bricks and mortar businesses". A tax based on the amount and value of physical space used by a business was a not entirely unreasonable guide to the level of tax that it should pay as its fair share to the cost of local government services. **The tax base for business rates was around 100% of the economy.**

2.3 Since the mid-1990s the digital economy, in the broader sense, has grown to become a significant and growing part of every major economy, including the UK's. One feature of this part of the economy is that physical space is less important in its operation, either in its amount or location. So, while the principle that every business should pay its fair share to the funding of local government services remains strong, the property basis of business rates is an increasingly inappropriate measure of the level of a business's contribution. This means that many digital businesses pay less, little or nothing towards local government services.

2.4 **The effect has been that the tax base for business rates, as a proportion of the total economy, is shrinking and continues to do so.** This means that a smaller and smaller portion of the economy is having to pay a larger and larger portion of the business rates total. The standard multiplier, set at

34.8p in 1990-91, now stands at 55.5p. As the costs faced by businesses have risen, successive governments have introduced a series of reliefs to support certain sectors of the economy that face difficulties in meeting the costs of higher business rates, including the small business multiplier introduced in 2005-06. The cost of these reliefs in 2024-25 is around £8.3bn. So, while the gross rates payable in this year is around £36.4bn, the net income from business rates is £26.3bn.[4]

2.5 The Government is proposing to transform business rates over the full course of this Parliament. It has made clear that the Budget announcements are just the start of that process. It is unlikely that the Government will replace business rates with a totally new way of taxing businesses as the means by which they contribute to the funding of local government services. Instead, it is exploring a range of measures to enhance the current system. This means that any transformation is likely to have business rates at its core as a property-based tax but with new elements to this system designed to achieve the Government's longer-term objectives.

2.6 As a first step, the Government has introduced a new higher rate multiplier for all businesses operating in properties with a rateable value (RV) of over £500,000. This will fund two new lower rate multiples which will provide a permanent relief for retail, hospitality and leisure businesses (RHL) operating in properties with RVs of under £500,000.

2.7 A major driver for this measure is to level the playing field between high street businesses and online retailers. The Government states that this will result in the online giants paying more to finance the cost of most high street businesses paying less.

2.8 To explore whether this particular reform is the best option for meeting the government's main objectives, Attis has looked at the main alternative elements that could be added to the business rates core. Businesses operating in the UK currently pay four main taxes:[5]

- Business rates - which are estimated to generate £26bn in 2023-24
- Employers National Insurance Contributions – which are estimated to generate £60bn in 2023-24
- Corporation Tax – which is estimated to generate £97bn in 2023-24
- VAT – which is estimated to generate £169bn in 2023-24[6]

2.9 All four of these taxes were introduced before the start of the digital economy from the mid 1990s. In 1990 the digital sector accounted for very little of the UK economy. In 2023 the Office for National statistics estimated that the broader digital economy was around 21%[7] of the total UK economy. Since these four taxes were not originally designed for the business models and practices of the new digital economy, companies in the digital sector have often been able to pay overall lower levels of tax while legitimately complying with all the regulations.

[4] DLUHC "National Non-Domestic Rates Collected by Councils in England: Forecast for 2024 to 2025

[5] House of Commons Library "Tax Statistics: an overview" March 2025

[6] VAT is ultimately paid by the final consumer. This could be a business or retail customer. Businesses collect this on behalf of the Government

[7] Digital Economy Survey: 2021
https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/digitaleconomysurvey/2021

2.10 It is outside the scope of this paper to explore this bigger issue of whether the business tax regime is fit for purpose in an increasingly digital economy. But the Chancellor has pledged to "replace our outdated system of business rates with a fair system fit for a modern economy." So, when looking to develop the current business rates system, it is important to understand which of these four taxes has proved most effective in accommodating the digital sector.

Business Rates

2.11 Rateable value is a factor of the nominal rental value of a property and the typically amount of floorspace involved. This disproportionately disadvantages high street businesses located in areas of high land value, and which often use large amounts of space. In 2023-24, retail and hospitality accounted for 9% of GDP but 34% of business rates paid.[8] The British Retail. Consortium states that "retail accounts for 5% of the economy but pays more than 20% of all business rates."[9] Similarly, the CEO of UK hospitality told members of the Non-Domestic Rating (Multipliers and Private Schools) Bill Committee in the Commons that hotels, bars and restaurants, also responsible for 5% of GDP, pay 13% of business rates.[10]

2.12 Generally, digital companies require physical space and do not have to be in areas with higher land/property values. As a result, they tend to pay significantly less in business rates than RHL businesses of similar scale. So, it seems unlikely that combining an additional business rates element – as the Government is currently proposing - will produce an equal balance of liability between the digital and non-digital sectors. The Attis study looks into the impact of the Government's higher multiplier proposal, commissioned by HOLBA, estimates for example that Amazon's share of the up to £2.2bn additional tax that could be raised could be around £11m, or just 0.5% of the total.[11]

2.13 The problem this creates, as highlighted in 2.5 above, is that as the digital sector increases as a proportion of the total economy, the business rates tax base is shrinking and will continue to do so. This means that as any government seeks to maintain or increase its tax revenue, a larger and larger demand will be made of a smaller and smaller number of businesses. This is evident in the Government's current proposals, which **do nothing to widen the tax base but instead take more from a small group of existing taxpayers to achieve its tax target.**

Employers National Insurance Contributions

2.14 RHL businesses tend to be more labour intensive than many digital companies who rely on fewer staff and different employment structures and models. Continual technological developments accelerate this difference. This tends towards a relatively lower amount of ENIC paid by digital companies. So, combining an element of ENIC is unlikely to meet the Chancellor's aim to "replace our outdated system of business rates with a fair system fit for a modern economy."

[8] Analysis by British Retail Consortium and UKHospitality October 2024

[9] BRC CEO Helen Dickinson quoted in "Talking Retail" October 2024

[10] Commons Hansard, December 11th 2024

[11] Alexander Jan, Gavin Chait, Professor Tony Travers "The Potential Impact on Businesses of the Government's Business Rates Reform Proposals" commissioned by HOLBA from Attis, January 2025

Corporation Tax

2.15 Corporation Tax is based on a company's profit level. Many digital companies can legitimately reduce the amount of Corporation Tax they pay, for example through intercompany charges for services such as research and development which substantially reduce their profit level in the UK. It is therefore unlikely that combining an element of the Corporation Tax system to business rates will ensure that the business rates system embraces the digital sector.

Value Added Tax (VAT)

2.16 Although not a sales tax, the amount of VAT that businesses pay is directly related to the level of sales generated by a business. It therefore has a similar impact on both on both digital and non-digital businesses. All equally pay tax of 20% on the value of their sales, apart from selected items at lower or zero rates or where VAT exemptions apply. There is nothing in the digital model that enables businesses to pay less VAT on their sales than non-digital businesses.

2.17 This suggests that when policy makers are deciding which element of any existing business tax to add to businesses rates to best incorporate the digital sector, some version based on VAT acting as a sales tax will be far more effective than anything linked to business rates, Corporation Tax or Employers' National Insurance Contributions.

2.18 Unsurprisingly, various hybrids of a property tax and sales tax is the way in which almost all other European countries raise money from businesses to contribute to the funding of local government services. A study undertaken by Professor Tony Travers and Alexander Jan of Arup, on behalf of New West End Company in 2018 showed that the UK and Ireland stood out amongst all other European countries in their 100% reliance on property taxes to fund local government.[12] The chart in appendix 2 demonstrates this.

A previous attempt at introducing an online sales tax, and the current Digital Service Tax

2.19 In 2023, following consultation, the then government rejected proposals for a hybrid system combining business rates with a new online sales tax. The major concerns were the complexity of deciding what would and would not be included, together with the financial and bureaucratic cost to government and business of introducing and administering a new tax, particularly since the amount of tax it was planned to raise, around £1bn to £1.5bn, would make little impact on the £23bn to be raised in 2002-23.[13]

2.20 In April 2020 HM Revenue & Customs (HMRC) introduced the Digital Services Tax, a 2% tax on the revenues of search engines, social media platforms and online marketplaces which derive value from UK users. The Government may need to remove this tax when international reforms proposed by the Organisation for Economic Co-operation and Development (OECD) are agreed and passed into law.[14] The new tax is deemed as a success with £358 million in revenue generated in 23/24, 30% higher than the original OBR forecast. The Digital Service Tax is currently part of the wider tariff discussions that the Government is having with the new United States administration

[12] Arup "Tax Reform Technical Study" 2018. Available on request

[13] HM Treasury "Online Sales Tax – Response to the Consultation" February 2023

[14] Digital Service Tax Inquiry: https://committees.parliament.uk/work/7021/digital-services-tax/#:~:text=In%20April%202020%20HM%20Revenue,derive%20value%20from%20UK%20users.

## 3. An Alternative – The Combined Business Rate

*The informing factors*

3.1 The discussion in Section 2 has informed our approach to an alternative proposal for this stage of business rates reform. Our key factors are:

- Business rates are the way that businesses contribute their share to the financing of local government services but because it is based on the value of space used by a business, it is not a good way to ensure that the growing digital sector of the economy contributes their fair share
- This continually shrinking business rates tax-base is at the heart of the problem the Government is trying to address
- Business rates are likely to remain at the centre of any future system for taxing businesses to contribute to the funding of local government services.
- "Transformation" is likely to be an evolving process, achieved by adding elements to the core business rates system
- These new elements are likely to be drawn from existing business taxes
- The UK's four major business taxes were all designed before the start of the broader digital economy and their ability to adapt to accommodate this sector is different for each
- A solution based on the VAT model and mechanism appears to be the most effective way to ensure that all businesses pay a fair share. The remaining three taxes enable digital businesses, quite legitimately, to pay lower rates of tax than bricks and mortar businesses.
- Therefore, the most effective way of evolving the business rates system to ensure that the digital economy makes its fair contribution needs to include elements drawn from the value of sales element of the VAT system.

***The Combined Business Rate***

3.2 Attis proposes that the business rate system should evolve to reflect the evolution of the economy so that business rates comprise two elements - **the Property Business Rate and the Digital Business Rate**. Together they would form a 'Combined Business Rate' which constitutes all businesses' contribution to the funding of local government services. The Combined Business Rate would meet the Chancellor's objective of "replacing our outdated system of business rates with a fair system fit for a modern economy."[15] It would widen the tax base, creating a more inclusive and equitable system, producing more tax for the Exchequer and reducing the unfair burden on certain sectors of the economy.

3.3 The Combined Business Rate follows the practice of virtually every other European country to raise local taxes from businesses through a hybrid system based on property and sales. It is tried and tested.

3.4 The Combined Business Rate, as an evolution of the business rates system, maintains the principle that the rate is paid, not by landlords but by the occupier businesses. The Combined Business Rate sees the owners and providers of digital platforms and relative digital services to enable digital activities as "digital landlords" and those who sell on those platforms as "digital occupier businesses." It therefore makes logical sense to charge the Digital Business Rate Levy on those sellers, using the existing VAT collection machinery, as the digital equivalent of the current business rates.

[15] Rt Hon Rachel Reeves MP, Speech at Labour's Business Conference, February 1st, 2024

**The Combined Business Rate -The Property Element**

3.5 The Property Element remains as it is, based on the RV and a multiplier and covering all businesses. When introduced in 1990-91, the multiplier was 34.8p. Since then, it has become more complex and more expensive. Today there are five multipliers with Standard Multiplier at 48p and Small Business Multiplier set at 43p. Numerous reliefs have been added as sticking plaster over the years.

3.6 Attis proposes that the Property element of the Combined Business Rate is reset to its 1990-91 position of just one multiplier at 34.8p with no need for any additional reliefs. The impact would be a cut in all business rates bills of 37% for businesses with standard multipliers and 31% for those with the small business multiplier. We assume that returning to the 1990-91 level will do away with the need for all or most of the reliefs that have been added over the years[16] at a cost to the Treasury in 2024-25 of £8.3bn although the Government may decide to retain some and that cost would need to be taken into account.[17]

3.7 With the total aggregate rateable value of all hereditaments in Sept 2024 estimated to be £67.97bn[18] a single multiplier of 34.8p would generate an estimated £23.6bn of gross revenue. This would be close to the net figure because we assume that most reliefs would be ended.

**The Combined Business Rate – The Digital Element**

3.8 We propose that the digital business rate should be levied on all online sales in the UK, with a few exceptions which we have suggested below. The levy is paid by the online seller, as the online occupier, not the online landlord. This adheres to the business rate principle.

3.9 Previous proposals have focussed on just online retail sales. We propose that the levy should be applied to all online sales, for two reasons:

- The principle that all businesses should contribute to the funding of local government services, whether online or not and whatever type of business they are.
- The aim of growing the tax base.

3.10 We do not see any justification for restricting the Digital Business Rates Levy just to retail businesses and allowing certain online businesses to avoid paying their fair share of the combined business rates. The Digital Business Rates Levy widens the tax base, creating a fairer system and generating significantly more revenue for the Exchequer. It could include, for example, online bookings for hotels, Airbnb, holidays, cars, music and software downloads. Interestingly, these purchases used to be made in high street travel agencies and shops up to the end of the 1990s before the popularity of online sites led to their demise.

3.11 The recent previous attempt to raise tax from online sales failed partly because of the difficulty in determining what would class as online sales and the need to establish a whole new tax collection system.[19] So we propose that the Digital Business Rate Levy uses the established VAT structure to

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[16] The small business relief, for example, was not introduced until 2005, 15 years after the introduction of business rates at a time when the multiplier had risen from 34.8p to 45.6p, 10.8p higher.

[17] HMT "National non-domestic rates collected by councils in England: forecast for 2024-25" May 2024. It has not yet been possible to update this following the revaluation

[18] HMT *ibid*

[19] See para 2.19

determine which goods and services are eligible and as a means of collecting the levy. In answer to the question, "which online goods and services are included?", the simple answer is "all those online sales that currently have UK VAT included".

3.12 The Government may wish to make exemptions. For example, it might exempt goods and services that are VAT Zero rated or that are VAT exempt. because this reflects the principle of not taxing essential items but also because it is simpler to administer using the established VAT system. Goods and services that might be legitimately excluded, include:

- Financial services
- Flights – VAT has never applied to airline tickets. Travellers pay a separate Air Passenger Duty
- Online sales that drive visits to town and city centres, for example:
    - Theatre and event tickets
    - Booking for hotels in the UK – UK hotels already pay full VAT at 20% whereas most European countries have a reduced VAT rate for hotels usually at around 8%
    - Click and collect – to encourage more people shopping on the internet to travel into town and city centres

3.13 The Government might also wish to consider placing a minimum turnover threshold for the Digital Business Rate Levy, using the established VAT system (current threshold is set at £90,000) to support smaller and start-up businesses.

3.14 The new levy would not be an extension of VAT. The existing VAT mechanism would be used to assess the level of online sales of goods and services. This allows HMRC to calculate the amount of the levy payable. The VAT collection system is then used to collect the levy. It is making more productive use of an existing government asset.

3.14 The important difference between the Digital Business Rate Levy and other attempts to tax "online giants" is that it is not the online platform owners that pay the levy. **They are the "digital landlords" and, in the case of business rates, landlords don't pay business rates, occupiers do. It is the online sellers, the digital occupiers, who are using their services as a platform to sell their goods and services, just like occupiers on the high street**. Even in the case of Digital Service Tax, which is charged to those digital businesses, the cost has already been passed on to sellers as a surcharge, particularly by multinational digital businesses[20]. The rationale for charging sellers is shown here:

| Costs | High Street Occupiers | Digital Occupiers |
|---|---|---|
| Rent – to landlord | Yes | Yes |
| VAT – to HMRC | Yes | Yes |
| Business Rates – Central Government via local authorities | Yes | Little or none |

[20] Public Accounts Committee Oral evidence: Digital Services Tax, HC 732
https://committees.parliament.uk/oralevidence/12910/html/

3.15 We would argue that one of the reasons why high street businesses struggle to compete with the lower prices offered by online competitors is that the latter (not the online giants) are not paying their business rates. Para 2.20 of the Government's consultation document mentioned the Digital Service Tax which is currently being reviewed as part of broader tariff negotiations with the US administration. **We believe that this distinction between a Digital Business Levy paid by online sellers and a Digital Service Tax may be an angle for the Government to consider**.

3.16 The Government would decide each year at what level the levy should be set. We would suggest that it reflects the percentage of turnover that the Property Business Rates represents as a percentage of turnover. This would suggest a Digital Business Rate Levy rate of 1-3% of sales. Without access to HMRC VAT returns, it is difficult to estimate the size of all online sales of goods and services in the UK. A recent study of just online retail sales based on ONS statistics put their value at £127bn in 2024.[21] This suggests that a Digital Business Rates Levy of just 1% on retail sales alone would, all things being equal, raise £1.3bn gross before taking account of any excluded sales and the impact of price elasticity on the level of sales.

3.17 If the Government was minded to examine this option, then it will have the data, resources and expertise to estimate the level of revenues that could be raised by every 1% of Digital Business Rates Levy. For illustration here we have assumed that if

- A levy of 1% on the level of online retail sales alone would raise around £1bn
  and
- Online retail is one third of the total online sales of goods and services in the UK, excluding financial services.

This would suggest that a 1% Digital Business Rates Levy might raise around £3bn

*Multiplatform sellers*

3.18 Increasingly the traditional v digital divide is disappearing as businesses have multi platforms for selling their goods and services. The Digital Business Rate would mean that all businesses would receive a bill for their Combined Business Rate including both elements. This ensures that the elements of their businesses combine to contribute equitably to the funding of public and local government services. It is likely that all businesses, including digital, will pay a Property Business Rate as they do now. However, all will receive the benefit of the reduced multiplier.

*The Combined Business Rate impact on businesses and the Government*

3.19 Based on the estimates above and with all the caveats given, we estimate that the revenue raised by the Combined Business Rate, based on 2024-25 data, would be:

- Property Business Rate with the multiplier set at 34.8p £23.6bn
- Digital Business Rate with the levy set at 2% £ 6.0bn
- Total £29.6bn

3.20 The Government has set an estimate for the net revenue from the current business rate system of £28bn in 2025-26.

[21] Koozai Research reported in Retail Gazette, February 12th, 2025

3.21 The Combined Business Rate system would therefore result in:

- All businesses benefitting from a cut in their business rates bills of 31% or 37%
- Online sellers adding a 2% levy to their prices
- Government gaining £1.6bn more in Business Rates Revenue
- Businesses avoiding the £2.2bn maximum tax increase under the Government's current additional multiplier scheme.

*Implementing the Combined Business Rate*

3.22 If so minded, the Government could implement the Combined Business Rate from 2027. Implementation is relatively simple, requiring no additional legislation.

- In the 2026 Budget the Government would announce that:
  - The standard multiplier for 2027 will be cut by 37% to 34.8p and other multipliers and reliefs will be abolished
  - The new Digital Business Rate Levy would be introduced, set at 2% of all online sales (with some exception), and calculated and collected using the established VAT structure
  - Collection is made through the existing business rates and VAT collection mechanisms and so will require no additional bureaucracy or legislation. Avoidance would be difficult.
- The Government could set the multiplier and online sales levy rate to ensure fiscal neutrality.

*Full benefits of the Combined Business Rate*

3.23 The financial impact suggested in para 3.15 are not the full benefits of the combined Business Rate. The benefits would include:

- All businesses in the UK will see a significant cut in their business rates bills or either 37% or 31% compared with the current levels, before taking account of any reliefs
- High street businesses will see the biggest relative fall in costs
- The cut will have a knock-on impact on the wider cost of business, for example distribution centres will see their bills fall
- Hotels will see a narrowing of the VAT gap between UK hotels and those in mainland Europe
- Businesses selling online will at last be able to pay their fair share in financing local authority services with see a new Digital Business Rate Levy of just 2%
- This would add just 20p to every £10 spent online.
- London will have a cushion against the increase of the 2026 revaluation.
- Businesses operating from properties with an RV of over £500,000 will not face an additional tax Bill of up to £2.2bn
- The Government can claim a significant success in helping the vitality of high streets
- Local Government and the Valuation Office Agency will see a fall in bureaucracy and appeals

## 4 Comparing the Governments proposal with the Combined Business Rate proposal

4.1 An analysis of the two policy proposals suggests that the Combined Business Rate proposal would be the most effective in meeting the government's objectives.

4.2. This table demonstrates contributions made to the funding of local government services by property occupiers and digital occupiers under the current system, the Government's proposed option and the alternative suggested in this paper

| Comparators | Existing Business Rates | | Additional Multipliers | | Combined Business Rates | |
|---|---|---|---|---|---|---|
| | Traditional | Digital | Traditional | Digital | Traditional | Digital |
| Proportion of total business rate paid | 90% | 10% | 90% | 10% | 80% | 20% |
| Business rates as a %age of turnover[22] | 1-3% | 0-1% | 1-3% | 0-1% | 2% | 2% |

Note that the Combined Business Rate results in the proportion of total business rates paid by the digital economy matching its proportion of the economy.

4.3 We have also compared the non-financial impacts of the Government's multiplier policy with the Combined Business Rate proposal.

| Objectives of tax | Additional multipliers | The Combined Business Rate |
|---|---|---|
| Reduce business rates burden on high streets businesses | **Partly** Although most RHL businesses will receive 40% reliefs, the 16,000 businesses paying for this, including 4,000 retailers, will share an additional tax of up to £2.2bn. | **Yes** Business rates bills for all businesses will fall by between 31-37% |
| Reduce business rates burden on all businesses | **No** All businesses that are not RHL will pay their normal business rates level. Businesses in properties with RV more than £500,000 will pay up to £2.2bn in additional tax. | **Yes** All business rates bills for all businesses will fall by between 31 - 37% |
| Ensure online businesses pay their fair share | **No** Most of the up to £2.2bn additional tax will be paid by businesses that are RHL or other sectors | **Yes** The digital sector, which forms around 35% of the economy will pay around 35% of the total |
| Easy to implement | **No** Requires primary legislation and requires new assessments amendments to and billing systems | **Yes** Simply requires one announcement on the single multiplier and one on the new online sales VAT level. No additional legislation required |
| Simpler | **No** Three new multipliers introduced | **Yes** Only one multiplier |
| Less bureaucracy | **No** More bureaucracy for local authorities | **Yes** Less bureaucracy for local authorities |
| Fewer appeals | **No** | **Yes** |
| Less work and fewer costs for local authorities | **No** More work and costs for local authorities | **Yes** Less work for local authorities |

[22] The exact level for the digital economy is difficult to estimate precisely within the remit of this study, but we have assumed on consistent anecdotal reports that it ranges from between 0% and 50% of the level of equivalent non-digital businesses.

| | | |
|---|---|---|
| A system more appropriate for a 21st century, increasingly digital economy | **No** | **Yes** |
| Does not require additional legislation | **No** Required primary legislation | **Yes** No new legislation required beyond the annul Finance Bill |

**5. Possible Objections to the Combined Business Rates proposal**

5.1 No tax system is perfect and there will always be issues with any proposal. However, we believe that the Combined Business Rate is the least imperfect of any proposals. It is worth noting that despite introducing the new Digital Business Rate Levy, this is not aimed at raising taxes – it is largely redistributing the payments of an existing system in a more equitable way so that all pay their fair share.

5.2 In an attempt to foresee and pre-empt potential issues and risks, Attis has given a brief analysis as below:

| Challenges | Analysis |
|---|---|
| **Legal and trade barriers** | |
| *VAT is governed by UK domestic law, but any sector-specific changes must comply with international trade agreements, such as those under the World Trade Organization (WTO) and free trade deals (e.g., UK-EU Trade and Cooperation Agreement).* | *We are not proposing a VAT amendment but a Digital Business Rate Levy. We are not proposing sector specific measures* |
| *If the UK applies a higher VAT rate only to online sales, foreign sellers may challenge it as a trade barrier or discriminatory taxation.* | *There would be no discrimination between sellers from different countries* |
| ***VAT Consistency Rules*** | |
| *VAT is generally applied uniformly across goods and services within the same category.* | *Generally does not mean always. And this is not VAT, it is a Digital Business Levy collected using the VAT collection infrastructure* |
| *A higher VAT rate for online vs. Offline sales could be challenged as inconsistent tax treatment, leading to legal disputes or tax avoidance strategies.* | *Unlikely – it is very consistent. The UK already has a range of different VAT rates and indeed some sector specific taxes such as for insurance policies And this not VAT, it is a Digital Business Levy collected using the VAT collection infrastructure.* |
| ***Defining "Online Sales"*** | |
| *For a separate online VAT rate to work, the government would need to clearly define what counts as an "online sale" which raises several complexities* | *The Government, HMRC, the ONS can clearly define what online means.* |
| *Hybrid Businesses – Many retailers operate both online and offline. Would VAT be determined by the sales channel, payment method, or delivery method?* | *It is very clear. Purchased online, VAT = 20% plus new Digital Business Rate charged at 3%* |
| *Click & Collect Services – If a purchase is made online but collected in-store, would it be taxed at the online or offline VAT rate?* | *To support the Government's objective of supporting high streets, click and collect would not be charged the 3% Digital Business Rate to encourage more people to visit town and city centres* |

| | |
|---|---|
| *Subscription Services – Would a higher online VAT rate apply to streaming services, software subscriptions, or only physical goods?* | *All online sales – so that all online businesses, not just online retailers, pay their fair share towards funding local council services, from which they all benefit.* |
| *Marketplace Sales – Would the tax apply to the platform (e.g., Amazon, eBay) or the individual sellers?* | *Whoever pays the VAT now continues to pay under the new scheme, and online sellers also pay the 3% Digital Business Rates Levy,* |
| *If definitions are too broad, they could capture unintended businesses, and if they are too narrow, companies could exploit loopholes to avoid the higher tax.* | *The definitions are very clear and simple* |
| **Retail & High Street Business Impact** | |
| *A higher VAT rate on online purchases could incentivise in-store shopping, which might benefit high street retailers* | *Exactly the aim of the Government. And this not VAT, it is a Digital Business Levy collected using the VAT collection infrastructure* |
| *However, large retailers with both online and physical stores could adjust their pricing strategies to offset the impact, meaning small online-only businesses may suffer disproportionately.* | *Unlikely. But if so, that's good for consumers overall* |
| **Consumer Impact** | |
| *Online shopping has become essential, and an increase in VAT would directly increase prices for consumers.* | *The difference would be just 30p in every £10. And this is not VAT, it is a Digital Business Levy collected using the VAT collection infrastructure* |
| *It could disproportionately affect people in rural areas or those with limited mobility, who rely on online shopping more than urban consumers with easy access to physical stores.* | *The Government wants to encourage people to use their local shops and businesses.* |
| **Tax Avoidance & Compliance Risks** | |
| *Reclassification of Sales – Businesses might reclassify transactions to avoid the higher VAT rate. For example, they could process sales as "offline" transactions by routing them through physical stores* | *Unlikely but a risk to take. Businesses generally do not try to evade taxes. And this is not VAT, it is a Digital Business Levy collected using the VAT collection infrastructure* |
| *International Sellers – Overseas e-commerce retailers could shift sales structures to avoid UK VAT collection, creating enforcement difficulties.* | *Unlikely. It is only 20p for every £10. And this is not VAT, it is a Digital Business Levy collected using the VAT collection infrastructure* |
| *Administration Complexity – Businesses would need to separately track and report online vs. offline VAT, increasing compliance burdens.* | *They already do both to differentiate their online and in-store sales and for different VAT rates. And it will eliminate the additional administrative burden imposed by additional multipliers* |
| *Close VAT loopholes on international sellers to ensure fair competition rather than applying a higher VAT rate for domestic online businesses.* | *This would not raise the level of taxes to enable a 35% cut in business rates* |

## 6. <u>Conclusion</u>

6.1 The declining tax base of the business rates system is a structural problem that will continue to grow as the digital economy becomes an increasingly larger proportion of the UK economy. More demand is being placed by the Government on a smaller and smaller proportion of the economy. At a time when the Government is relying on growth in the private sector to provide growth in public finances, it cannot be right that the business rates system does not enable this growing digital economy to pay its fair share. Adding yet more reliefs and multipliers to a systematically broken system is not sustainable. That's why the focus of the Combined Business Rate is on including the digital economy to ensure it is a full part of the tax base.

6.2 Attis was asked to suggest an alternative way to meet the Government's policy objectives. With limited time and resources, this alternative option has been proposed at a strategic level. We accept that some of the figures given are estimates which may differ somewhat under more thorough investigation and with more data. We also accept that there may be some details missing or misunderstood. But our aim is to demonstrate that other realistic options for reform do exist and are worth looking into by the Government.

6.3 If the Government was persuaded to examine this option in more detail, then we would expect it to use its considerable expertise and resources to produce more robust data and recommendations.

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## Appendix 1

**Earlier Government attempts at reforming business rates did not achieve their objectives**

*2015 Conservative Manifesto* - "We will conduct a major review into business rates by the end of 2015 to ensure that from 2017 they properly reflect the structure of our modern economy and provide clearer billing, better information sharing and a more efficient appeal system."

*2017 Conservative Manifesto* - The Conservative Manifesto 2017 proposed supporting businesses affected by business rate revaluation, introducing more frequent revaluations to prevent sharp increases, and exploring self-assessments in the valuation process. It also committed to a full review of the business rates system to ensure it remains fit for a changing economy, particularly with the rise of online shopping. However, only a revaluation was carried out with transitional arrangements introduced to mitigate impacts on small and medium-sized businesses.

*2019 Conservative Manifesto* - "We will cut the burden of tax on business by reducing business rates. This will be done via a fundamental review of the system. As a first step, we will further reduce business rates for retail businesses, as well as extending the discount to grassroots music venues, small cinemas and pubs. That means protecting your high street and community from excessive tax hikes and keeping town centres vibrant."

*Main outcomes*

- A new 2p sales tax on online retail sales only was rejected. The only significant change has been that the revaluation period was reduced from five years to three.
- By failing to include all online businesses operating in the UK the system fails to "properly reflect the structure of our modern economy."

The reviews failed to "cut the burden of business rates on business" - gross revenues rose from £22.9bn (2015) to £28bn (2017), £29.9bn (2019) and £32bn (2024).[23]

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[23] National non-domestic rates statistics issued by the MHCLG/DLUHC. The gross income is before a variety of discounts, or reliefs, are applied which reduce the net income to the Exchequer. The necessity of such reliefs suggests that the system is not fit for purpose in an increasingly digitised 21st century economy. Some of the increase in gross income was due to economic growth.

## Appendix 2

**Tax Reform Technical Study, Arup, 2018**

An Arup study undertaken by Professor Tony Travers and Alexander Jan for New West End Company in 2018 showed that the UK and Ireland stood out amongst European countries for their reliance completely on property taxes to fund local government. All other European countries used a hybrid tax system with a mix of property taxes and taxes based on economic performance, for example through sales or profit. Far from being the only way to fund business contributions to funding local government services, a reliance solely on business rates is actually an aberration.