



# **Real Rates Reform**

## **HOLBA's Hybrid Business Rate Proposal**

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

**A report commissioned by Heart of London Business Alliance (HOLBA)**

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### **Authors**

**Paul Barnes**, Managing Director, Attis

**Elio Fang**, Partner, Attis

### **Economic Advisor**

**Alexander Jan**

## **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 announcement in the 2025 Autumn Budget 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.

This report, commissioned by Heart of London Business Alliance (HOLBA) sets out an alternative approach to business rates reform based on detailed analysis of the current system.

The 'Hybrid 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.

# Executive Summary

## Real Rates Reform: HOLBA's Hybrid Business Rate

The UK's business rates system is no longer aligned with the way the modern economy operates. It places a disproportionate burden on physical premises while failing to reflect the growth of digital and online activity.

The result is a system that is increasingly volatile, uneven in its impact across sectors, and a growing constraint on investment, job creation and competitiveness.

Recent changes following the November 2025 Budget have intensified these pressures, accelerating cost increases across retail, hospitality, logistics, manufacturing, culture and infrastructure. What was already a structural issue has now become a pressing national economic concern.

This document sets out a practical and deliverable approach to reform through a **Hybrid Business Rate** model. The model retains a property-based tax, but at a significantly reduced level, and introduces a modest, targeted levy on eligible online sales.

The aim is not to penalise any part of the economy, but to ensure that the tax system better reflects how value is created today, while maintaining stable funding for public services.

The proposed model is designed to be:

- **Fairer**, by broadening the tax base
- **More stable**, by reducing reliance on a single mechanism
- **Economically coherent**, by aligning with modern business models
- **Deliverable**, using existing administrative systems

This paper provides the rationale, structure and safeguards required to support informed discussion on the future of business rates and the role reform can play in supporting long-term UK growth.

## Purpose and context

Reform of business rates in England is widely recognised as necessary but complex. Despite successive adjustments, the system remains poorly aligned with a modern, increasingly digital economy. Recent Budget measures—including new retail, hospitality and leisure (RHL) multipliers and a high-value multiplier—sought to support the high street and address perceived imbalances with online businesses. However, the 2026 revaluation has resulted in significant and unanticipated bill increases for many high street firms, notwithstanding headline reductions in multipliers.

In this context, Heart of London Business Alliance (HOLBA) commissioned this analysis to develop a simpler and fairer alternative consistent with the Government's objectives. The resulting Hybrid Business Rate is an evolutionary reform that retains business rates while broadening the tax base to reflect structural changes in the economy since 1990.

## The problem with the current system

Business rates are the principal mechanism through which businesses fund local government. When introduced in 1990–91, a predominantly physical economy meant property values were a reasonable proxy for economic activity and ability to pay, capturing the vast majority of the tax base.

Since the mid-1990s, the growth of the digital economy has weakened this link. Online and digital firms typically occupy less and lower-value property yet benefit from the same public services as property-intensive businesses. An increasing share of economic activity therefore makes only a limited contribution through business rates.

This has produced a structurally narrowing tax base funding a Treasury-set yield, concentrating the burden on a shrinking set of property-intensive sectors—particularly retail, hospitality and leisure—and driving higher multipliers and growing reliance on complex and costly reliefs.

Recent reforms have not addressed this underlying issue. Instead, they have redistributed liability within the existing base—most notably through higher charges on higher-value properties—while leaving the imbalance between digital and non-digital business models largely unchanged.

## Assessing the alternatives

The report considers whether existing business taxes could be adapted to better align business rates with the modern economy. Employers' National Insurance Contributions and Corporation Tax are poorly suited to this role, as digital businesses can legitimately structure activity to reduce liability relative to more labour-intensive, place-based firms.

VAT, by contrast, is directly linked to sales and applies consistently across digital and non-digital business models, conferring no inherent advantage on online activity. International evidence also indicates that most European countries fund local government through hybrid systems combining property taxation with sales or turnover-based elements, rather than relying predominantly on property taxes as in the UK.

The conclusion is that any reform intended to widen the tax base and reflect the digital economy should link business rates to sales, rather than profits, employment or property alone.

## The Hybrid Business Rate

This paper proposes an evolutionary reform: the introduction of a **Hybrid Business Rate**, combining a reduced **Property Business Rate** with a modest **Digital Business Rate** levied on online sales using the existing VAT system. Together, these two elements would constitute businesses' full contribution to the funding of local government services.

The Hybrid Business Rate is not a new tax. Total receipts would continue to be set annually by government, preserving Treasury control over yield and ensuring fiscal neutrality. As with revaluations, the reform affects the distribution of liability rather than the overall amount raised.

Under the proposal:

- The Property Business Rate would be simplified and reset to a single multiplier equivalent to its 1990–91 level (34.8p), reducing bills by around 31–37% and materially reducing the need for most reliefs.

- The Digital Business Rate would apply to UK online sales on which VAT is charged, with limited, policy-driven exclusions. Liability would fall on online sellers, consistent with the established occupier principle in business rates.
- The VAT system would be used to define scope, assess liability and collect the levy, avoiding the need for new administrative infrastructure or complex new definitions.

Illustrative modelling suggests that a Hybrid Business Rate could deliver broadly equivalent net revenues to the current system, while significantly reducing the cost of reliefs, broadening the tax base, and easing pressure on property-based sectors. The approach aligns with international practice, where local business taxation typically combines property and sales-based elements.

From a Treasury perspective, the proposal retains the key advantages of the existing system: predictability, resistance to avoidance, and central control of yield. While the digital element introduces some exposure to economic performance, it draws on VAT—the tax most difficult for digital activity to avoid—and reflects the growing share of the economy now conducted online.

The Hybrid Business Rate could be implemented from 2027 using existing legislative and collection frameworks. It offers a credible, deliverable route to modernising business rates in a way that is fairer, more sustainable, and better aligned with the contemporary UK economy, while maintaining fiscal certainty for the Exchequer.

### **Key benefits**

The Hybrid Business Rate offers a number of strategic advantages.

- It improves fairness by broadening contributions to reflect modern patterns of economic activity, rather than reliance on physical property alone.
- A wider tax base enhances sustainability by reducing pressure on multipliers and the need for repeated, complex reliefs.
- The approach is administratively simple, building on existing business rates and VAT systems rather than introducing a new tax.
- It aligns with international practice and the realities of a digital economy while remaining revenue-neutral:
- overall yield remains a matter for government, with the reform affecting distribution rather than receipts.

### **Conclusion**

The Hybrid Business Rate provides a credible and deliverable route to reform. It recognises that business rates will remain central to local government finance, but that the system must evolve to remain fair and effective. By combining a simplified property tax with a modest sales-based element, the proposal addresses the core structural weakness of the current system: a tax base that no longer reflects the economy it seeks to tax.

# **Real Rates Reform – HOLBA’s Hybrid Business Rate**

## **I. Background**

- 1.1 The Government is seeking to reform business rates in England 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.”<sup>1</sup>
  - “Replacing our outdated system of business rates with a fair system fit for a modern economy.”<sup>2</sup>
  - “The government’s objectives are protecting the high street .....and creating a fairer system.”<sup>3</sup>
- 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 7<sup>th</sup> December 2025
  - “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 7<sup>th</sup> December 2025

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<sup>1</sup> “Labour Party Manifesto”, June 2024

<sup>2</sup> Speech by Rt Hon Rachel Reeves MP, Labour Party Conference, September 2024

<sup>3</sup> “Transforming Business Rates”, HM Treasury Consultation Paper, October 2024

- “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 6th December 2025
- “The rateable value of the Grey Street Hotel, Newcastle, has gone up by 113% from £48,750 to £104,000” The Times 6th December 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 6th December 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 4th December 2025

## 2. Finding an 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 only just started. All businesses were what are now called “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, is 55.5p in the current year (2025/26). It will fall to 48p in 2026/27, although together with the introduction of a new High-Value Multiplier sat at 50.8p. 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.<sup>4</sup> So, while the gross rates payable in this year is around £36.4bn, the net income from business rates is £26.3bn.<sup>5</sup>

- 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. Business rates have two attractions to the Treasury. First, the amount raised is predictable. It is not linked to the performance of the economy. Instead, the total amount to be collected is set by the Treasury each year and the business rates system determines how the payment of that amount is distributed amongst businesses. Secondly, being based on property, it is difficult to avoid.
- 2.6 This means that the Government is unlikely to abolish rates and replace it with a totally new system. 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.
- 2.7 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. A major driver for this measure is to level the playing field between high street businesses and online retailers. The Government stated that this will result in the online giants paying more to finance the cost of most high street businesses paying less.
- 2.8 However, in the 2025 Budget, the Government decided not to make full use of these two multipliers to provide a significant reduced rate for high street businesses of up to 40%, funded by a the new higher-value multiplier. Instead, it replaced the 2024/25 40% relief for high street businesses with just a 5% reduction.
- 2.9 A combination of the loss of most of this relief and the 2026/27 revaluation outcomes led to an unexpected rise in rate bills from April 2026 for many high street businesses. Despite the transitional relief scheme capping year one rises at 15%, the government was forced to announce an additional relief for pubs extending that cap until the next revaluation at a cost to the government of around £300m in year one. The announcement has led to calls for similar treatment from other high street businesses. This particular reform has been seen as another expensive sticking plaster on a broken and unsustainable business rate system.
- 2.10 To explore whether this particular reform is the best option for meeting the government's main objectives, the analysis considers the main alternative elements that could be added to the business rates core. Businesses operating in the UK currently pay four main taxes:<sup>6</sup>

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<sup>4</sup> See Appendix 2

<sup>5</sup> DLUHC "National Non-Domestic Rates Collected by Councils in England: Forecast for 2024 to 2025

<sup>6</sup> House of Commons Library "Tax Statistics: an overview" March 2025

- Business rates - which are estimated to have generated £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<sup>7</sup>

2.11 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%<sup>8</sup> 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.

2.12 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

2.13 Rateable value is a factor of the nominal rental value of a property and the 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.<sup>9</sup> The British Retail Consortium states that “retail accounts for 5% of the economy but pays more than 20% of all business rates.”<sup>10</sup> 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.<sup>11</sup>

2.14 Generally, digital companies require less 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 [analysis](#) that examined 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.<sup>12</sup>

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<sup>7</sup> VAT is ultimately paid by the final consumer. This could be a business or retail customer. Businesses collect this on behalf of the Government

<sup>8</sup> Digital Economy Survey: 2021

<https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/digitaleconomysurvey/2021>

<sup>9</sup> Analysis by British Retail Consortium and UK Hospitality October 2024

<sup>10</sup> BRC CEO Helen Dickinson quoted in “Talking Retail” October 2024

<sup>11</sup> Commons Hansard, December 11<sup>th</sup> 2024

<sup>12</sup> Alexander Jan, Gavin Chait, Professor Tony Travers “The Potential Impact on Businesses of the Government’s Business Rates Reform Proposals” commissioned by HOLBA, January 2025

- 2.15 Analysis by commercial real estate intelligence agency, Altus Group, shows that for every £100 of turnover, a physical high-street retailer pays roughly £2.91 in business rates, while an online-only retailer pays just £0.34. So, for every £1 paid in business rates by a digital business, a high street equivalent pays £8. Altus calls this 8:1 disparity “The 755% Gap”.
- 2.16 Digital companies have argued that creating this fairer system would remove this tax advantage and so have a negative impact on their international competitiveness. Clearly those companies are entitled to argue for a tax-break, but the uniqueness of the business rate system causes a difficulty. Tax breaks are normally funded by the Exchequer as a policy decision to support a particular sector. But because uniquely the Government sets a business rate total each year to be paid by businesses, the tax-break that digital companies are receiving is an accident, rather than a policy and is funded by high street businesses, not the government
- 2.17 The problem this creates, as highlighted in 2.4 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

- 2.17 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.”

#### Corporation Tax

- 2.18 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)

- 2.19 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 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.
- 2.20 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.

2.21 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.<sup>13</sup> The chart in Appendix 3 demonstrates this.

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

2.22 In 2023, following consultation, the then government rejected proposals for a new online sales tax to raise additional funds which would be used to reduce business rates. 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 2022-23.<sup>14</sup> This proposal was focused on retail sales only with the money raised hypothecated to reduce business rates for both high street and out of town retail.

2.23 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.<sup>15</sup> 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. A review of the different forms of digital tax is attached as Appendix 4.

### **3. An Alternative – The Hybrid 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:

- All businesses should pay their fair share towards the funding of local government services
- 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

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<sup>13</sup> Arup “Tax Reform Technical Study” 2018. Available on request

<sup>14</sup> HM Treasury “Online Sales Tax – Response to the Consultation” February 2023

<sup>15</sup> Digital Service Tax Inquiry: <https://committees.parliament.uk/work/7021/digital-services-tax/#:~:text=In%20April%202020%20HM%20Revenue,derive%20value%20from%20UK%20users.>

- 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 Hybrid Business Rate

- 3.2 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 'Hybrid Business Rate' which constitutes all businesses' contribution to the funding of local government services. The Hybrid 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."<sup>16</sup> 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 Hybrid 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 Hybrid 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 Hybrid 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.
- 3.5 The Hybrid Business Rate would not be inflationary. It is not a new tax. The total amount raised each year, set by the government, will not increase. The change will be in the way in which the payment of that total is distributed amongst businesses. The principle of this already happens at each revaluation where the amount raised is not affected, but the redistribution of payment is amended.

#### The Hybrid Business Rate -The Property Element

- 3.6 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. These are outlined in Appendix 2.
- 3.7 The Property element of the Hybrid Business Rate should be reset to its 1990-91 position of just one multiplier at 34.8p with no need for most 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

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<sup>16</sup> Rt Hon Rachel Reeves MP, Speech at Labour's Business Conference, February 1<sup>st</sup>, 2024

small business multiplier. Returning to the 1990-91 level will in theory do away, for the foreseeable future, with the need for all or most of the reliefs that have been added over the years<sup>17</sup> 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.<sup>18</sup>

- 3.8 The full breakdown of the cost of these reliefs to the Government is given in Appendix 2. In Table One the analysis considers the impact on the 2024/25 costs to the Government of the major reliefs if the Hybrid Business Rate was in place. It is assumed that the Government keeps the small business relief and the charitable relief but the cost of these to the Government is reduced by around 35%. The result is that the cost to the Government falls from £8.6bn to £3.7bn, a reduction of £4.9bn.

Relief	Cost 2025/26 (Est)	Hybrid Business Rate impact	Revised Cost
Small Business Relief	£3.2 bn	Cut by 35%	£2.1 bn
Retail/Hospitality/Leisure	£1.9bn	Not needed	£0
Charitable Relief	£2.3bn	Cut by 35%	£1.6bn
Transitional & SSB Relief	£1.2bn	Not needed	£0
<b>TOTAL</b>	<b>£8.6bn</b>		<b>£3.7bn</b>

Table One

- 3.9 With the total aggregate rateable value of all hereditaments in Sept 2024 estimated to be £67.97bn<sup>19</sup> a single multiplier of 34.8p would generate an estimated £23.6bn of gross revenue. This would be closer to the net figure because the cost of reliefs would fall to just £3.7bn.

*The Hybrid Business Rate – The Digital Element*

- 3.10 It is proposed that the digital business rate should be levied on all online sales in the UK, where VAT is charged, with a few exceptions as set out below. The levy is paid by the online seller, as the online occupier, not the online landlord. This adheres to the business rate principle.
- 3.11 There are clear distinctions between the digital element of HOLBA Hybrid Business Rate and other existing or proposed digital taxes. These are examined in detail in Appendix 3. In particular the HOLBA proposal is qualitatively different from the online retail sales tax which was examined and rejected by government in 2022. Table Two outlines the key differences.

Government's 2022 Online Sales Tax Proposal	HOLBA's Digital Sales Levy Proposal
Separate from the business rates system	Integrated into the new Hybrid Business Rate
Applied only to online retail sales in the UK	Applies to ALL UK online sales with some exceptions
Estimated to raise £1bn	Estimated to raise £6bn
Required new tax system costing over £1bn	Uses VAT system to assess and collect
Significant additional bureaucracy	Minimal additional bureaucracy
Aimed at online landlords	Aimed at online occupiers
No significant impact on business rate levels	37% cut in all business rates
Property based businesses subsidising digital	Digital paying their fair share

Table Two

<sup>17</sup> 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.

<sup>18</sup> 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

<sup>19</sup> HMT *ibid*

- 3.12 Previous proposals have focused on just online retail sales. This report proposes 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.
- 3.13 The analysis identifies no clear 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 Hybrid 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 overseas hotels, Airbnb, holidays, cars, music and software downloads. 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.
- 3.14 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.<sup>20</sup> So this report proposes that the Digital Business Rate Levy uses the established VAT structure to 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”.
- 3.15 The Government may wish to make exemptions. For example, using the VAT system exempts 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 sector products, other than professional services – where VAT is not charged
  - 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
- 3.16 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.
- 3.17 The new levy would not be an extension of VAT. Instead, 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.

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<sup>20</sup> See para 2.19

3.18 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<sup>21</sup>. The rationale for charging sellers is shown in Table Three:

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

Table Three

3.19 The analysis indicates 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. **The analysis indicates 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.** See Appendix 4 for a more detailed review of current digital taxes.

3.20 The Government would decide each year at what level the levy should be set. The analysis suggests that it reflects the average 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.<sup>22</sup> 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.

3.21 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 this analysis assumes 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.

<sup>21</sup> Public Accounts Committee Oral evidence: Digital Services Tax, HC 732  
<https://committees.parliament.uk/oralevidence/12910/html/>

<sup>22</sup> Koozai Research reported in Retail Gazette, February 12<sup>th</sup>, 2025

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

#### Multiplatform sellers

- 3.22 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 Hybrid 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. An example of how the Hybrid Business Rate would impact on multiplatform businesses is shown in Appendix 5.

#### The Hybrid Business Rate impact on businesses and the Government

- 3.23 Based on the estimates above and with all the caveats given, the analysis estimates that the revenue raised by the Hybrid 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
• Gross total	£29.6bn

- 3.24 The Government has set an estimate for the gross revenue from the current business rate system of £36.4bn in 2025-26 with a net revenue of £26.4bn taking account of the £8.3bn cost of the reliefs. As shown in 3.8, the Hybrid Business Rate would reduce the cost of reliefs to £3.7bn giving a net total of £25.9bn, just £0.7bn less than currently realised.

- 3.25 The Hybrid 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 collecting about the same amount of net Business Rates Revenue
- Businesses avoiding the £2.2bn maximum tax increase under the Government's current additional multiplier scheme.

#### Ensuring certainty for the Treasury

- 3.26 The current business rate system has two appeals to the Treasury. First, unlike other taxes, the amount raised is set by the Government each year and is not linked to economic performance. Secondly, being based on property, it is difficult to avoid. Taken together this gives a high level of predictability and certainty to the Treasury. The analysis indicates that the Hybrid Business Rate will retain that high level of certainty.

- 3.27 80% of the tax will still be raised by the Property Element of the Hybrid Business Rate, so retaining the level of predictability. The Digital Element is based on economic performance and so, in theory, does not have the same levels of predictability and certainty. But the reason why the business rates system needs to evolve is because the digital sector of the economy has grown from virtually nothing in 1990 to over 20% of the economy in 2025, and that proportion will continue to grow. Also, as already noted, VAT is the tax most difficult for the digital sector to avoid paying. So, while the Digital Element is more uncertain, it is fairly certain that it will only increase, not decrease.

3.28 To enhance the level of certainty, the Government could base its Digital Tax take on the total raised in the previous year, which would be known. The Government could deduct that amount from the total target amount to be raised in the following year to give it a total amount to be raised through the Property Element. This would then enable the Government to set the multiplier at a level that ensure the combined elements produced the total required.

#### Implementing the Hybrid Business Rate

3.29 If so minded, the Government could implement the Hybrid 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 some 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 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 Hybrid Business Rate

3.30 The financial impact suggested in para 3.15 are not the full benefits of the Hybrid 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 Hybrid Business Rate proposal**

4.1 An analysis of the two policy proposals suggests that the Hybrid Business Rate proposal would be the most effective in meeting the Government's objective

4.2. Table Four 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		Hybrid 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 <sup>23</sup>	1-3%	0-1%	1-3%	0-1%	2%	2%

Table Four

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

4.3 In Table Five, below, the non-financial impacts of the two alternatives are compared.

Objectives of tax	Additional multipliers	The Hybrid Business Rate
Reduce business rates burden on high streets businesses	<b>No</b> High Street businesses will face significant rises in 2026-2028	<b>Yes</b> Business rates bills for all businesses will fall by between 31-37%
Reduce business rates burden on all businesses	<b>No</b> 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.	<b>Yes</b> All business rates bills for all businesses will fall by between 31 - 37%
Ensure online businesses pay their fair share	<b>No</b> Most of the up to £2.2bn additional tax will be paid by businesses that are RHL or other sectors	<b>Yes</b> The digital sector, which forms around 20% of the economy will pay around 20% of the total
Easy to implement	<b>No</b> Required primary legislation and requires new assessments and amendments to the billing systems	<b>Yes</b> Simply requires one announcement on the single multiplier and one on the new online sales VAT level. No additional legislation required beyond the annual Finance Bill
Simpler	<b>No</b> Three new multipliers introduced	<b>Yes</b> Only one multiplier
Less bureaucracy	<b>No</b> More bureaucracy for local authorities	<b>Yes</b> Less bureaucracy for local authorities
Fewer appeals	<b>No</b>	<b>Yes</b>
Less work and fewer costs for local authorities	<b>No</b> More work and costs for local authorities	<b>Yes</b> Less work for local authorities
A system more appropriate for a 21 <sup>st</sup> century, increasingly digital economy	<b>No</b>	<b>Yes</b>
Does not require additional legislation	<b>No</b> Required primary legislation	<b>Yes</b> No new legislation required beyond the annual Finance Bill

Table Five

<sup>23</sup> The exact level for the digital economy is difficult to estimate precisely within the remit of this study, but it has been assumed on consistent anecdotal reports that it ranges from between 0% and 50% of the level of equivalent non-digital businesses.

5. **Possible objections to the Hybrid Business Rate**

5.1 No tax system is perfect and there will always be issues with any proposal. However, the analysis indicates that the Hybrid 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, these are analysed below

Challenges	Analysis
<b>Legal and trade barriers</b>	
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).	A VAT amendment is not being proposed but a Digital Business Rate Levy. Sector specific measures are not proposed.
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
<b>VAT Consistency Rules</b>	
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.
<b>Defining “Online Sales”</b>	
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 2%
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 2% Digital Business Rate to encourage more people to visit town and city centres

<b>Defining “Online Sales” cont</b>	
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, 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 individual sellers?	Whoever pays the VAT now continues to pay under the new scheme, and online sellers also pay the 2% 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
<b>Retail &amp; High Street Business Impact</b>	
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
A new tax would put consumer prices up	There is no new tax. The total collected by the government remains the same. It’s the distribution of payment that changes.
Additional taxation on digital businesses will impact on the competitiveness of this key sector	The digital sector is effectively receiving a tax-break funded by struggling high street businesses. If the sector believes it needs a tax-break, it should argue the case for a government funded scheme.
<b>Consumer Impact</b>	
Online shopping has become essential, and an increase in VAT would directly increase prices for consumers.	The difference would be just 20p 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.
<b>Tax Avoidance &amp; Compliance Risks</b>	
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 35-37% cut in business rates

Table Six

## 6. Choosing between policy options

- 6.1 The “zero-sum” nature of business rates creates a challenge for both government and representative bodies. Because government sets the total yield each year, any reform redistributes the burden, creating winners and losers. The redistribution effects of the 2026 revaluation, particularly on high street businesses, illustrate this clearly.
- 6.2 An online sales tax would shift part of the burden from bricks-and-mortar businesses to the digital economy. Similar proposals were opposed by major online retailers in 2021–22, making it difficult for trade bodies with mixed memberships to offer support. As a result, the proposal was dropped and the status quo retained.
- 6.3 Policy choices should not be assessed in absolute terms. The real decision is between reform and the status quo. Each has advantages and drawbacks, but the focus should be on their relative outcomes, not the merits or demerits of an online sales tax in isolation.
- 6.4 Choosing not to reform business rates is itself a policy decision. Rejecting an online sales element amounts to acquiescing to:
- struggling high street businesses subsidising digital competitors
  - the continuation of an uneven playing field
  - a shrinking tax base leading to higher bills for non-digital firms
  - a system that is increasingly unfair, opaque, and outdated
  - repeated reliance on costly, short-term reliefs to address sudden bill increases
- 6.5 No system is perfect, but the Hybrid Business Rate is a clear improvement on the status quo. Maintaining the current system is unsustainable: revenues will need to rise, the tax base will continue to narrow, and the cost of temporary reliefs will grow. Simply redistributing higher costs across fewer taxpayers is not a long-term solution. A structural reform is needed, and the case for acting now—rather than later—is compelling.

### The digital dimension

- 6.6 The evolution of the system should be welcomed by online and digital businesses. The current business rates model is based solely on the occupation of physical property and does not capture the value generated through online activity. This has created a perception that digital businesses are not contributing fairly to the funding of local public services, when the underlying issue lies in the design of the tax system itself. It also fuels claims of an unfair advantage over high street businesses, when in fact the imbalance is created by an outdated tax base. The Hybrid Business Rate addresses this by broadening the system while retaining the established principle that the occupier pays. For major online platforms, this ensures they are not liable for the business rate obligations of third-party sellers using their marketplaces.

### The tax timebomb

- 6.7 The introduction of new multipliers has left a tax time bomb for larger business under the status quo option. The new legislation gives powers to the Government to set a multiplier for businesses in property with an RV of over £500,00 which can be up to 10p (currently 20%) higher than the standard multiplier. This would have enabled the Government in the 2025 Budget to have financed a multiplier for RHL businesses of up to 40% lower than the standard multiplier.

- 6.8 Surprisingly the Government chose to set the RHL multiplier at just 5p lower than the standard, financed by a High-Value Multiplier set at just 2.8p above the Standard Multiplier. All the subsequent outcry was focussed on the impact on high street businesses. The response from the large businesses, who had expected the worst, was muted.
- 6.9 But the law now allows the Government in future years to set the high-value multiplier at up to 10p (currently 20%) higher than the standard multiplier. HOLBA's impact assessment on the maximum additional tax raised by this new high-rate multiplier puts it in excess of £2bn. However, there is no legal obligation that the money raised should be used to finance a reduction in the RHL multipliers. The Government's aim over time is to shift the £8bn+ cost of reliefs away from the Exchequer to be borne by business rates payers. This means that, under the current system, there is a possibility that big business could in the future face far higher bills with no benefit to RHL businesses or local government finances.

## 7. **Conclusions**

- 7.1 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 Hybrid Business Rate is on including the digital economy to ensure it is a full part of the tax base.
- 7.2 This report suggests 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. Some of the figures given are estimates which may differ somewhat under more thorough investigation and with more data and there may be some details missing or misunderstood. But the aim of this report is to demonstrate that other realistic options for reform do exist and are worth looking into by the Government.
- 7.3 If the Government was persuaded to examine this option in more detail, then it could use its considerable expertise and resources to produce more robust data and recommendations.

Paul Barnes, Managing Director  
Elio Fang, Partner  
Alexander Jan, Economic Advisor  
[paul@attispartners.co.uk](mailto:paul@attispartners.co.uk)

Original report, March 2025. First update, December 2025. Second update, March 2026

## **Appendix I**

### **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).<sup>24</sup>

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<sup>24</sup> 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 21<sup>st</sup> century economy. Some of the increase in gross income was due to economic growth.

## **Appendix 2**

### **Summary of current Business Rate Reliefs**

Below is a breakdown of the existing and upcoming reliefs. "Cost" estimates are based on national treasury projections for the total "Business Rates Package" announced in the 2024 and 2025 Budgets.

#### **1. Small Business Rate Relief (SBRR)**

- Introduced: 2005 (made more generous in 2017).
- Why: To reduce the tax burden on small firms and startups.
- Eligibility: Businesses using only one property with a Rateable Value (RV) below £15,000.
- The Benefit:
  - 100% relief for RVs up to £12,000 (pay £0).
  - Tapered relief from 100% down to 0% for RVs between £12,001 and £15,000.
- Estimated Cost: Approx. £3.2 billion annually across both years.

#### **2. Retail, Hospitality and Leisure (RHL) Relief**

- Introduced: 2019 (significantly expanded during the COVID-19 pandemic).
- Why: To protect high-street businesses from the "cliff-edge" of rising rates and online competition.
- Eligibility: Shops, cafes, pubs, hotels, gyms, and cinemas.
- The Benefit:
  - 2025/26: 40% discount on the bill (capped at £110,000 per business).
  - 2026/27: Replaced by new, permanently lower multipliers (38.2p for small, 43p for standard) and a specific 15% extra discount for pubs and music venues.
- Estimated Cost: £1.9 billion (2025/26); £2.4 billion (2026/27) via the new multiplier structure.

#### **3. Charitable Rate Relief**

- Introduced: 1961 (modernized in 1988).
- Why: To support the social value provided by non-profit organizations.
- Eligibility: Registered charities and Community Amateur Sports Clubs (CASCs).
- The Benefit: A mandatory 80% discount. Local councils can "top this up" to 100% at their discretion.
- Note for 2025/26: From April 2025, private schools lose their eligibility for this relief in England.
- Estimated Cost: Approx. £2.3 billion annually.

#### **4. Supporting Small Business (SSB) Relief**

- Introduced: 2023 (Renewed/Expanded for 2026).
- Why: To help businesses whose bills jump significantly because they lost their Small Business or Rural relief due to a revaluation.
- Eligibility: Businesses whose RV rose in the 2026 revaluation, pushing them out of other relief categories.
- The Benefit:
  - 2025/26: Bill increases capped at £600/year.
  - 2026/27: Bill increases capped at the higher of £800 or a percentage cap (e.g., 5% for small properties).
- Estimated Cost: Part of the wider £3.2 billion transitional relief pot.

## 5. Transitional Relief

- Introduced: Every revaluation cycle (latest version starts 2026).
- Why: To "cushion" the blow for businesses whose properties saw massive value increases since the last valuation.
- Eligibility: Any business whose bill would increase significantly due to the April 2026 revaluation.
- The Benefit: Gradually phases in the full bill over 3 years. For 2026/27, the first-year increase is capped at 5% for small properties and 30% for the largest.
- Estimated Cost: £3.2 billion over three years (partially funded by a 1p supplement on other businesses).

## 6. Rural Rate Relief

- Introduced: 1997.
- Why: To ensure essential services stay in small villages (population <3,000).
- Eligibility: The only village post office or general store (RV <£8,500), or the only pub or petrol station (RV <£12,500).
- The Benefit: 100% relief (pay £0).
- Estimated Cost: Relatively low, approx. £15–20 million annually.

## 7. Improvement Relief

- Introduced: April 2024.
- Why: To encourage businesses to invest in their premises without being "punished" with an immediate tax hike.
- Eligibility: Businesses that expand or improve their property (e.g., adding an extension).
- The Benefit: You pay no extra rates on the "new" value of the improvement for 12 months.
- Estimated Cost: Approx. £50 million annually.

### Summary Table: Annual Cost Estimates

<b>Relief</b>	<b>Cost 2025/26 (Est)</b>	<b>Cost 2026/27 (Est)</b>
Small Business Relief	£3.2 bn	£3.3bn
Retail/Hospitality/Leisure	£1.9bn	£2.4bn (as Multiplier)
Charitable Relief	£2.3bn	£2.1bn (post-school change)
Transitional & SSB Relief	£1.2bn	£1.8bn (Revaluation Year)
<b>TOTAL</b>	<b>£8.6bn</b>	<b>£9.6bn</b>

# Appendix 3

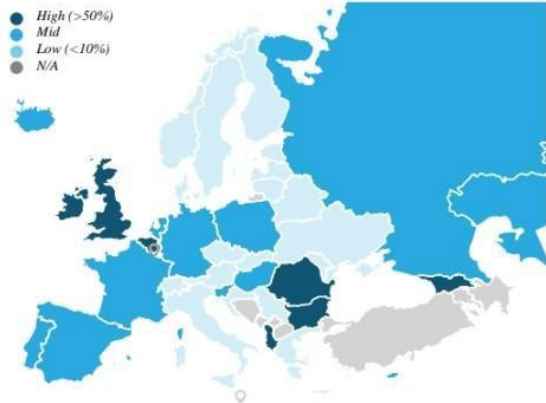
## Tax Reform Technical Study, Arup, 2018

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.

### Challenges of the current system

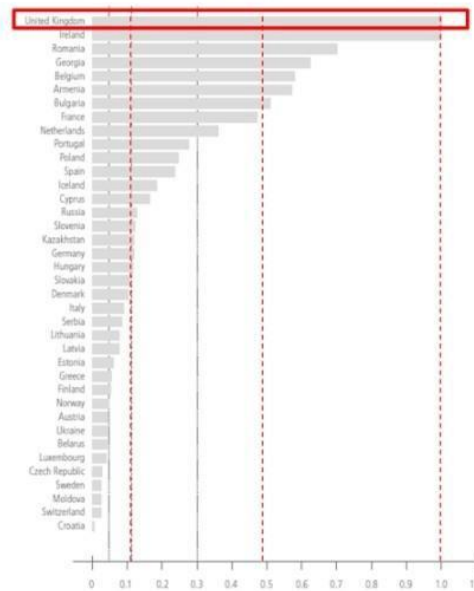
Property tax is the only tax revenue for local government funding in the UK

Reliance on property tax (residential and commercial) for local tax revenue



Source: UN Habitat, Arup graph  
Private & Confidential – March 2018

Property tax as a proportion of local tax revenue



Source: GFS 2010, computations by author.

## Appendix 4

### **The difference between HOLBA's Hybrid Business Rate Online Sales Element and the other three other previously proposed and existing digital taxes**

1. **Digital Tax One** - *The online sales tax, part of HMT's 2022 business rates reform proposal which was not proceeded with following consultation.*

In 2022, the UK government conducted a formal consultation on a proposed Online Sales Tax (OST). This was part of a wider "Fundamental Review of Business Rates" aimed at addressing the perceived tax imbalance between physical "bricks-and-mortar" retailers and online "clicks" giants. The government ultimately decided not to proceed with the proposal in the Autumn Statement 2022.

#### *Key Elements of the 2022 Proposal*

The consultation explored several design options rather than a single fixed model, but the primary elements included:

- **The Mechanism:** A tax levied on the revenue or volume of online sales made to UK customers.
- **Tax Rate:** Discussed as a low-level levy, typically suggested at 1% or 2% of the transaction value.
- **Scope:** The government debated whether it should cover goods only or include services (like digital downloads, food delivery, or travel bookings).
- **Exemptions:** Consideration was given to excluding "Click and Collect" transactions and providing an allowance for small businesses.
- **Ring-fencing:** A core promise was that the revenue would be directly "recycled" to fund a reduction in business rates for retail properties.

#### *Estimated Costs and Income*

The financial disparity between the proposed OST and the existing business rates system was one of the primary reasons for its rejection.

- **Estimated Income:** Initial HM Treasury estimates suggested an OST at 1% or 2% would raise roughly £1 billion per year.
- **The Funding Gap:** At the time, retailers in England were paying approximately £7.5 billion in business rates. The £1 billion generated by an OST would have funded only a very modest reduction in business rates (roughly a 12–13% cut), which many stakeholders felt was insufficient to "save the high street."
- **Administrative Costs:** It was noted that the cost for businesses to update software and for HMRC to police the "boundary" between online and offline sales would be significant, potentially eating into the net benefit.

Table A1 highlights the key areas of difference between the 2022 proposal and HOLBA's Hybrid Business Rate

<b>Government's 2022 Online Sales Tax Proposal</b>	<b>The Digital Element of the Hybrid Business Rate</b>
Separate from the business rates system	Integrated into the new Hybrid Business Rate
Applied only to online retail sales in the UK	Applies to ALL online sales in the UK with a few identified exceptions
Estimated to raise £1bn	Estimated to raise £6bn
Required new tax system costing over £1bn	Uses VAT system to assess and collect
Significant additional bureaucracy	Minimal additional bureaucracy
Aimed at online landlords	Aimed at online occupiers
No significant impact on business rate levels since additional cost exceed additional revenues	37% cut in all business rates funded by income from the digital element
Property based businesses subsidising digital	Digital paying their fair share

Table A1

### Reasons for Not Proceeding

In deciding not to proceed with the 2022 proposal in 2022, the then Government cited five key reasons for not proceeding with its version of an online sales tax. Table A2 outlines these reasons and shows how HOLBA's Hybrid Business Rate proposal addresses them.

Some are practical issues while others are issues of policy. Supporting high streets as the foundations of local communities is a major focus of Government policy. At its heart is the urgent need to save struggling high street businesses from the growing impact of inevitable rising business rates bills. With political will and by asking "how do we do this?" rather than "can we do this?" it is not difficult to see how to overcome all the issues used as justification not to proceed in 2022.

<b>Issue</b>	<b>2022 concern</b>	<b>Hybrid Business Rate Response</b>
Complexity and "Boundary" Issues	Defining exactly what constitutes an "online sale" proved near-impossible. For example, if a customer orders via an in-store tablet or a QR code while standing in a shop, is that an "online" or "physical" sale?	This distinction is not inherently complex. The guiding principle should be support for high streets. Any sale made <i>while the customer is physically present on a high street</i> —even if facilitated digitally—should be treated as a physical sale. Conversely, online sales that <i>drive footfall</i> to high streets (e.g., theatre tickets, click-and-collect orders) should be excluded from the digital levy.
Cost of Living Impact	Coming during a period of high inflation, there were fears that retailers would simply pass the tax on to consumers, effectively becoming a "tax on shopping" that would hit lower-income households the hardest.	The total tax burden on businesses will not increase. Government revenue targets remain fixed annually, only the <i>distribution</i> of that burden changes. This redistribution already occurs at each revaluation. The Hybrid Business Rate simply rebalances the system so that digital-intensive businesses contribute fairly.
Unintended Distortions	The tax would have hit "omnichannel" retailers (high street shops that also sell online) twice—once via business rates and once via the OST—potentially making them less competitive.	This is incorrect. All businesses will pay a <i>single</i> Hybrid Business Rate composed of a property element and a digital element. The digital element is modest (2%, or £2 per £100 of online sales) and the property element will fall significantly (by 37%). Omnichannel retailers are not taxed twice; they are assessed on both elements in proportion to their business model, just like all other firms. The reform ends the current imbalance where digital-heavy businesses benefit from an unintended tax advantage.

The "Landlord Windfall" Risk	Economists warned that if business rates were cut, landlords might simply increase rents, meaning the tax break would benefit property owners rather than the retail businesses it was meant to help.	This risk exists but is not inevitable. Landlords have a strong interest in maintaining viable high streets. Their behaviour during COVID-19 demonstrated willingness to support tenants to preserve occupancy and long-term asset value. It is unlikely they would undermine a reform designed to stabilise and revitalise high street locations.
Double Taxation	Some businesses already paying the Digital Services Tax (DST) argued they would be taxed twice on the same digital activity.	This is incorrect. The Hybrid Business Rate is <i>not</i> a digital services tax. It is a modest levy on online sales, paid by customers, not a tax on digital platforms. The DST and the digital element of the Hybrid Business Rate have different tax bases, different thresholds, different objectives, and apply to different activities. No business will be taxed twice for the same activity.

Table A2

## 2. Digital tax Two - The Digital Services Tax

The digital element of HOLBA's Hybrid Business Rate proposal and the existing Digital Services Tax (DST) are fundamentally different tools designed to solve different problems. While the DST targets the global profits of tech giants, HOLBA's "Hybrid Business Rate" is a specific attempt to evolve the UK's business rates system to reflect the structural change in the UK economy and ensure that all businesses operating in the UK pay their fair share towards the funding of local government services. The core differences break down into three categories: what is being taxed, who pays it, and where the money goes. This is illustrated in Table A3.

Category	The Digital Service Tax	The digital element of the Hybrid Business Rate
The Tax Base (What is being taxed?)	The DST is a revenue tax on specific digital activities that "derive value from UK users." It applies to 2% of revenues from search engines, social media platforms, and online marketplaces (the fees they charge sellers, not the value of the goods sold).	HOLBA's Online Sales Levy is a transactional tax on all digital sales of good and services, with a small number of targeted exceptions. It proposes a 2% levy on the value of all online sales in the UK. If you buy a pair of shoes online for £100, a £2 tax is triggered. It is effectively a "digital sales tax" designed to mirror the "tax" that physical shops pay through business rates. It is collected via the VAT system, but is not VAT.
Target & Thresholds (Who pays?)	The DST is highly targeted at multinational tech giants. It only applies to groups with: <ul style="list-style-type: none"> <li>• Global revenues from in-scope activities of more than £500 million.</li> <li>• UK revenues from those activities of more than £25 million.</li> <li>• Crucially, it does not apply to a retailer selling their own goods online (e.g., <a href="http://Next.co.uk">Next.co.uk</a> is exempt from DST, but would be hit by HOLBA's levy).</li> </ul>	HOLBA's proposal is designed to be broad. It targets all online sales of goods and services to UK consumers, both retail and other. Following business rate principles, it is paid by the digital occupier, not the digital landlord. Where a business uses a digital platform from, for example, Amazon, it is that business that pays the levy, not Amazon.

The Objective (Why do it?)	The Digital Services Tax is a Corporate Tax Reform. It was introduced as an "interim measure" to ensure tech companies pay tax in the UK where their users are, rather than just where their HQ is located. It is meant to be repealed once the OECD reaches a global agreement on taxing the digital economy.	HOLBA's Hybrid Business Rate has the sole purpose of Business Rate Reform. The analysis indicates that by raising £6 billion from online sales, the government could cut physical business rates by up to 37%. It aims to "level the playing field" between a high street-based business and a similar, online business.
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Table A3

3. **Digital Sales Tax Three - Value Added Tax (VAT)**

VAT is charged to consumers on all sales, digital and non-digital, including goods and professional services, music and video streaming, e-books, software and mobile apps. The digital element of HOLBA's Hybrid Business Rate uses the VAT system to assess and collect tax, but it is a separate sales tax, not an additional VAT. While any new tax creates technical challenges, these should be manageable with sufficient political will.

Some businesses may be concerned about the added bureaucracy of distinguishing digital from non-digital sales, particularly for omnichannel retailers. However, some level of bureaucracy is unavoidable with any new tax, and in practice most businesses already make this simple distinction in their management accounts for planning and performance purposes.

## Appendix 5 Impact Comparisons

### Impact of current Business Rate System compared with HOLBA's Hybrid Business Rate

The purpose of this appendix is to provide an illustration of the impact on high street retailers, online retailers and multichannel retailers of moving from the current business rate system to the Hybrid Business Rate system.

#### Section 1 - Impact on High Street Retailer compared with Digital equivalent

##### Assumptions

1. Retailers wish to receive £100 from the sale of a product after business rates and VAT have been deducted
2. Business rates equate to 10% of high street retailer turn-over and 1% of digital retailer turnover
3. HOLBA's Hybrid Business Rate cuts all rate bills by 35%
4. VAT is charged on the combined total of the product and business rate

cost Example 1

#### **Current Business Rate impact on High Street Retailer compared with Digital equivalent**

Element	High Street Retailer	Digital Retailer
Required income	£100	£100
Business Rates	£10	£1
Pre-VAT Sale Price	£110	£101
VAT	£22	£20.20
Total Sale Price inc. VAT	£132	£120.20
High street: more expensive £	+ £11.80	-
High street: more expensive %	+ 9.8%	-

##### Example 2

#### **HOLBA's Hybrid Business Rate impact on Physical Retailer compared with Digital equivalent**

Element	High Street Retailer	Digital Retailer
Required income	£100	£100
Business Rate	£6.50	£0.65
Online Levy	£0	£2
Pre-VAT Sale Price	£106.50	£102.65
VAT	£ 21.30	£ 20.53
Total Sale Price inc. VAT	£127.80	£123.18
High street: more expensive £	+ £4.62	-
High street: more expensive %	+ 3.7%	-

**Conclusion – under the HOLBA Hybrid Business Rate, the cost to the digital retailer is still lower than to the high street retailer but the difference has narrowed from 9.8% to 3.7%**

## **Section 2 - Impact on High Street Retailer compared with Omnichannel equivalent**

### Assumptions

1. Retailers wish to receive £200 from the sale of products after business rates and VAT have been deducted
2. Omnichannel sales are 50% high street and 50% digital
3. Business rates equate to 10% of high street retailer turn-over and 1% of digital retailer turnover
4. HOLBA's Hybrid Business Rate cuts all rate bills by 35%
5. VAT is charged on the combined total of the products and business

rates Example 3

Current Business Rate impact on High Street Retailer compared with Omnichannel equivalent

Element	High Street	Omnichannel Store 50%	Omnichannel Digital 50%	Omnichannel Total
Required income	£200	£100	£100	£200
Business Rate	£20	£10	£1	£11
Pre-VAT Sale Price	£220	£110	£101	£211
VAT	£44	£22	£20.20	£42.20
Total Sale Price	£264	£132	£120.20	£252.20
High street: more expensive £	£11.80	-	-	-
High street: more expensive %	+4.7%	-	-	-

### Example 4

HOLBA's Hybrid Business Rate impact on High Street Retailer compared with Omni-Channel equivalent.

Element	High Street	Omnichannel 50% Store	Omnichannel 50% Digital	Omnichannel Total
Required income	£200	£100	£100	£200
Business Rate	£13	£6.50	£0.65	£7.15
Online Levy	£0	£0	£2	£2
Total Hybrid Business Rate	£13	£6.50	£2.65	£9.15
Pre-VAT Sale Price	£213	£106.50	£102.65	£209.15
VAT	£42.60	£21.30	£20.53	£41.83
Total Sale Price	£255.60	£127.80	£123.18	£250.98
High street: more expensive £	+ £4.62	-	-	-
High street: more expensive %	+1.8%	-	-	-

## **Section Three – Difference in business rates paid**

Total Business Rates, based on assumptions above and based on £200 product

Business Rate	High Street	Digital	Hybrid
Current System	£20	£2	£11
HOLBA's Hybrid Business Rate	£13	£5.30	£9.15
Difference £	-£7	+£3.30	-£1.85
Difference %	-35%	+65%	-17%

**This report was prepared by Attis on behalf of Heart of London Business Alliance.**

# Attis

## **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.