



Proposed Setting and Retention of Non-domestic Rates Bill

Response from the Federation of Small Businesses in Scotland

Introduction

- 1.1 The Federation of Small Businesses welcomes this opportunity to submit its views to the Bill sponsor.
- 1.2 The FSB is Scotland's largest direct-member business organisation, representing over 18,000 members, and campaigns for an economic and social environment which allows small businesses to prosper.
- 1.3 The FSB in Scotland also responded to the Council Tax Abolition and Service Tax Introduction (Scotland) Bill, sponsored by the same Member, in October 2005.

Repatriating the Setting of the Poundage Rate to Local Authorities

- 3.1 We do not support the general principles of the proposed Bill, which seeks to repatriate the setting and retention of non-domestic rates with local authorities.
- 3.2 At present, local authorities are responsible for administering and collecting non-domestic rates, but the Scottish Executive is responsible for setting the poundage rate, and for retaining revenue collected under non-domestic rates, which is then distributed across Scotland according to the Executive's spending priorities. This includes the Small Business Rates Relief, which is applied across Scotland and funded centrally by the Scottish Executive. Repatriating non-domestic rates would have obvious implications on the viability of this scheme.
- 3.3 We would be concerned about the ability of local authorities to vary the amount of tax, given there are clear strains on local government finances. 2006 has witnessed above inflation increases in Council Tax across the majority of Scotland's local authority areas, and we believe that the non-domestic rates poundage might be increased to relieve some of the pressure on local authority finances. We were particularly concerned about the proposal to create Business Improvement Districts (BIDs) across Scotland, on the basis they may require local businesses inside the BID to pay more in taxes for services the local authority should already be providing.
- 3.4 Evidence indicates that non-domestic rates have a significantly greater impact on smaller businesses than on larger businesses, particularly as a percentage of turnover and profit, so any upward pressure on the rates poundage would damage the profitability of smaller businesses.
- 3.5 Whilst businesses have been unhappy with the difference in the rates poundage between Scotland and England, the Scottish Executive is now committed to equalise the rates poundage between Scotland and

England. The FSB in Scotland also campaigned for, and welcomed the announcement by the Finance minister to equalise non-domestic rates poundage between Scotland and England by April 2007. Returning the poundage rate to local authorities could lead to greater inconsistency and unpredictability which are clearly undesirable from a small business perspective.

- 3.6 While the FSB does not favour any particular system over non-domestic rates, we believe that the case for transferring the setting of non-domestic business rates from the Scottish Executive to local government has not been made. We therefore cannot support the principle of the proposed Bill to transfer the setting and retention of business rates to local government.

