Mr Alan Brontë
Rating Policy Division
Department of Finance
Lanyon Plaza
7 Lanyon Place
Belfast
BT1 3LP

11th November 2019

Dear Mr Brontë,

FSB Northern Ireland response to the 2019 Business Rates Consultation

The Federation of Small Businesses is Northern Ireland's largest business organisation with approximately 6,000 members in Northern Ireland from across all sectors of industry, and around 170,000 members throughout the UK. Our aim is to promote and protect the interests of small businesses and, to that end, we work with decision-makers to create a better business environment.

Northern Ireland is a small business economy, and micro and small businesses form the bedrock. We have the highest concentration of SMEs of all the regions in the UK. FSB NI welcome the chance to respond to this consultation on non-domestic rates, on behalf of our members across Northern Ireland. Over the many years in which FSB has engaged with the 'rates question', we have provided the government with evidence both from FSB members and those across the wider business community.

Ministers and the Department of Finance deserve great credit for having spent a decade giving relief to our smaller businesses through the SBRR, from which the smallest have seen a 50% discount for that time. However, the fact that that discount has been in place for a decade means that, at the very least, the SBRR must be permanently embedded as the normal valuation for those businesses. We must all be imaginative about the role that rates can play in funding public services, but it cannot come from doubling the rates of our smallest firms. Given that the Northern Ireland block grant has received significant additional funding in recent years as a result of further rates relief in England, the Small Business Rate Relief scheme should also be enhanced to reflect this, rather than being used to fund other pressures.

There is also an opportunity to help align rates with the cross-cutting policies of the Programme for Government. Reinstating Rural ATM relief and introducing 100 percent relief for independent childcare providers would help maintain business activity in rural communities and ensure accessibility of affordable childcare, objectives which are relevant to outcomes outlined in the Programme for Government of creating a balanced regional economy and allowing parents to join or remain active in the labour market.

With each review of rates it becomes more evident that no 'quick fix' exists to the rates question. The issue facing the rating system is how to move from being regressive and disproportionate, towards fairness and continuous improvement. In that context, we urge your Department to use this review to set about providing a road map for business rates reform, which outlines a vision of an improved system with fairness and proportionality at its core, and which plots a course toward achieving this, but which allows time for businesses to adjust to the changes.

Finally, our response to the consultation sits in the context of our previous submissions over many years, to which links are included at the end of this document. Please do not hesitate to contact us if you have any queries and we look forward to continued engagement with the Department as you progress with the consultation and subsequent development of policy.

Yours sincerely,

Tina McKenzie

FSB Northern Ireland Policy Chair

T 028 9032 6035
E FSBNI@fsb.org.uk
W fsb.org.uk

A Cathedral Chambers
143 Royal Avenue,
Belfast, BT1 1FH

FSB Northern Ireland response to the 2019 Business Rates Consultation

Recommendations

1. The government should commit to retaining Small Business Rates Relief for all sectors, to recognise the contribution of small businesses to society.
2. The government should examine extending Small Business Rate Relief, based on similar principles of progressive taxation seen in income tax. The smallest properties would be removed from rates altogether, with increasing tax bands for larger properties.
3. Small Business Rate Relief, either in its current form, or an enhanced form, should be consolidated into a permanent relief, rather than an annual decision on extension.
4. SBRR should continue to be automatic, rather than application based.
5. The government should introduce a dedicated rates relief for start-ups.
6. The government should retain the residential care homes relief in its current form.
7. The government should reintroduce the rural ATMs rate relief.
8. The government should consider overwhelming evidence for the provision of 100% rates relief to all childcare providers in Northern Ireland.
9. The government should produce a road map plan for business rates reform, outlining the key steps to getting to a more proportionate business rates system that is not based purely on property values.
10. The government, as part of this road map plan, should analyse different alternatives to business rates. They should provide costings, projections and estimates on their impact on local businesses.
11. The government should re-examine how it promotes and explains business rates, with greater focus on explaining to businesses how their rates are spent on things that matter to them.
12. The government should retain industrial de-rating and freight transport relief in their current forms.
13. The government should double the threshold of payment for vacant properties from three months to six months, but then phase out the relief.
14. The government should reintroduce and expand the empty premises relief, using a multi-year system for all properties.
15. Councils should receive the power to strike separate domestic and non-domestic rates, when used to lower the non-domestic poundage.
16. Councils should receive more powers to reduce business rates in response to local hardships or conditions.
17. The government, in the interim before any new system is developed, should look at other options of expanding the tax base to help reduce the burden placed on ratepayers.

Introduction

There is no form of taxation that is more unpopular with small businesses than non-domestic rates. The current rating system is regressive, complex, and expensive and it is unresponsive to changes in economic conditions. Business rates are a major obstacle to business success. In research conducted for FSB by the Ulster University Business School in June 2015, 43% of small businesses cited 'rates' as a major barrier.[1] When we asked our members what would help their business grow, a 'reduction in business rates' was one of their top three responses.

FSB has submitted many previous responses on the rates issue. In these, we have explained and described how non-domestic rates have a disproportionate and adverse impact on small businesses. Rates constitute more than three times the proportion of turnover for small businesses than they do for large businesses. Typically, they are the third largest expenditure after wages and rent for a business with a turnover less than £100,000.[2]

As Northern Ireland is a small business economy, growing that economy can only happen by supporting small businesses. There is also an increase in the number of businesses now able to operate without premises, placing a heavier cost burden on businesses in traditional premises. As such, the system for collecting business taxes for local services is in need of significant reform.

Our major calls for action are:

- Policymakers must embed the Small Business Rate Relief scheme permanently, rather than it being subject to review each year, causing needless uncertainty.
- Small Business Rate Relief scheme should be enhanced. This would reflect the significant additional funding in recent years as a result of further rates relief in England. These funds should be used to support small businesses, rather than being used to fund other pressures.
- The government should align rates with the cross-cutting policies of the Programme for Government, including introducing a start-up relief, introducing a 100 percent relief for independent childcare providers, and the reintroduction of rural ATM relief. These align with the Programme for Government outcomes of creating a balanced regional economy and allowing to parents to join or remain active in the labour market.

In addition to our views on the existing system and reliefs, we will look briefly at alternative ways of raising revenue in this document. We recognise that some ideas will require cross departmental work, and we respect that they may not be in the gift of the Department of Finance. We are sharing this response with relevant government departments, and urge the Department of Finance to take account of our suggestions and share them across government.

[1] Ulster University, (2015), *The contribution of Small Businesses to Northern Ireland* (Belfast: Ulster University Business School)
[2] DTZ Pieda, (2004), Evaluation and Effectiveness of the SBRRS

Small Business Rate Relief

FSB is calling for a fair alternative to business rates to emerge from this review. However, in the meantime the government needs to mitigate against the most harmful aspects of the current business rates system. The best way to achieve this is to protect and improve the Small Business Rates Relief (SBRR) scheme, and to embed it as a permanent adjustment to the Net Annual Valuation (NAV).

FSB called for the establishment of the SBRR scheme in 2008 as a means of recognising the importance of small businesses to the economy in Northern Ireland, to provide effective support and assistance to those businesses, and to help mitigate against the disproportionate impact of the business rates system. The scheme achieves these objectives at a relatively small cost, and is a measure that applies across all small businesses without attempting to pick "winners". It was with this view in mind that the then Chancellor, George Osborne, announced that SBRR in England, on properties with a rateable value (RV) of up to £12,000, would be both doubled and made permanent. This removed 600,000 small businesses from paying rates altogether and sent a very clear message to small businesses that the UK Government recognised that business rates are a major barrier to business.

Northern Ireland is a small business economy. Of its 132,000 businesses, across all sectors of the economy, more than 99% are SMEs. SMEs account for over 70% of turnover in the private sector, compared to just over 50% in the whole of the UK, and for nearly 75% of all private sector employment in Northern Ireland. SMEs have added nearly 44,000 new jobs in Northern Ireland in the last four years; double the number created by large businesses.

SME Proportions in the Nations or Regions of the UK[3]

Nation / Region	SMEs	Turnover	Employment
England	99.9%	51.1%	59.2%
Scotland	99.8%	51.5%	63.6%
Wales	99.9%	60.8%	74.6%
Northern Ireland	99.9%	70.9%	74.7%

However when we look at small business rates support, Northern Ireland lags heavily behind the rest of the UK. No small businesses in Northern Ireland receive 100% relief. In contrast, businesses in Wales with rateable values under £6,000 receive 100% relief. In England those with up to £12,000 of RV receive 100% relief. In Scotland those with up to £15,000 of RV receive 100% relief.

By way of example, a business with NAV of £5,000 in Derry and Strabane will pay nearly £2,500 in rates, whereas an identical business in Great Britain won't pay a penny.

[3] Office for National Statistics, (2018a), Business Population Estimates for the UK and Regions 2018

Level of reliefs in the Nations or Regions of the UK

Nation / Region	£0-2,000 NAV	£2,001-5,000 NAV	£5,001-12,000 NAV	£12,001-15,000 NAV	£15,001-18,000 NAV	£18,001-51,000 NAV
England	100%	100%	100%	Tapered Relief (100%-0%	Small Business Multiplier	Small Business Multiplier
Scotland	100%	100%	100%	100%	25%	0%
Wales	100%	100%	Tapered Relief (100%-0%	0%	0%	0%
Northern Ireland	50%	25%	20%	20%	0%	0%

Northern Ireland is far more reliant on small businesses than any other part of the UK. At a time when other parts of the UK are lifting small businesses out of rates altogether, Northern Ireland, and its SMEs, simply cannot afford to go in the other direction.

Economic Impact of SBRR

Research conducted by the Ulster University's Business School in 2015 revealed that the top barrier to small business growth is cash flow.[4] The NICEP report noted that SBRR helped ratepayers with cash flow, survival and keeping the cost of overheads down.[5] A survey of FSB members showed that small businesses were most likely to use the savings from SBRR to ease cash flow or offset other costs[6], so the main barrier to business is alleviated, in part, by the Small Business Rate Relief scheme. Removal of the scheme would simply take the biggest barrier to businesses in Northern Ireland and make it bigger still. In real terms the smallest business would have to generate significant additional sales, to make a profit of £600, to pay the increase caused by the removal of their SBRR.

Social Impact of Business Rates

Smaller businesses are the heartbeat of their communities the length and breadth of Northern Ireland, making direct contributions to those communities. Nearly 60% of small businesses donate money to local good causes. Almost half of them donate products or services to local causes, and 40% donate time to local causes. 42% engage with their local schools and colleges.[7] Despite their day-to-day pressures, many small businesses are committed to utilising their resources, skills and time in giving back to their local community.

For communities to thrive, the 429,000 people employed within small and medium sized businesses must also thrive. Small businesses not only provide direct support to their local community, but also act as a gateway into employment for those furthest away from the

[4] Ulster University, (2015)
[5] NICEP, (2014), *Small Business Rate Relief Evaluation*
[6] FSB, (2017), *SBRR Survey*, Jan/Feb 2017
[7] Ulster University, (2015)

labour market. 29% of small businesses hire staff who were previously long-term unemployed whilst 68% hire a workforce mainly composed of people from the local area.[8]

The Economic Research Institute of Northern Ireland found that SBRR in Wales *"is regarded as a social policy rather than a driver for economic investment"*.[9] This is recognition by the Welsh Government of the importance of small businesses, not just to the economy but to the fabric of Welsh society. Given the contribution of small businesses in Northern Ireland to their local community, in addition to their economic impact, the Northern Ireland Executive should follow the lead of their Welsh colleagues and consider Small Business Rate Relief as a form of social policy. This will send a strong message of support and recognition to our small business community. Conversely, removing the scheme would send a strongly negative message to businesses in Northern Ireland.

Recommendation: The government should commit to retaining Small Business Rates Relief <u>for all sectors</u>, to recognise the contribution of small businesses to society.

Improvements to Small Business Rate Relief

The former Chancellor George Osborne understood the disproportionate pressure that rates place on smaller businesses, so he took the decision to provide 100% relief to all businesses with properties up to £12,000 RV. This removed 600,000 businesses from paying rates altogether and recognised the contribution of SMEs to the economy in England by mitigating the harms of the rating system.

The same approach in Northern Ireland would take over 26,000 small business properties out of rates altogether, at a cost in the region of £60 million per year, which could be met through the Barnett consequentials derived from this business support initiative in England. FSB understands the budgetary pressures facing the Northern Ireland Executive, and is not unsympathetic; however, introducing a similar measure in Northern Ireland would be a fundamental declaration by the government that it genuinely supports small businesses and is serious about assisting the growth of the economy. To put this in context, £60 million would be a similar amount to the cost of industrial de-rating, and substantially less than the £96 million granted in the charitable exemption. There is robust argument to demonstrate that this is entirely affordable, as the Northern Ireland block grant will receive an extra £106 million (compared to the 2015 Settlement) in 2019-20 specifically due to changes in business rates in England, of which £47 million is derived from changes to SBRR in England.

Offsetting the cost of increasing the investment in smaller firms by expanding the SBRR could also be achieved by introducing progressive taxation principles into rates. This could be modelled on income tax, using NAV values as a proxy for income. Similar to income tax, it could have an allowance threshold akin to the Personal Allowance, where a business would not be expected to pay any rates. In essence, the SBRR could be adopted as the 'business allowance' with the £12,000 figure that is applied in England serving as a useful benchmark.

Businesses would then have to pay rates on the value of their property over the threshold. The multipliers on these properties would then progressively go up as the value of the property increases. This would take the majority of the smallest businesses out of rates

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[8] Ulster University, (2015)
[9] ERINI, (2008), Investigation into a SBRR scheme in Northern Ireland

altogether while at the same time reducing the burden it would place on public finances. Adopting such a system would not only address FSB's calls for the SBRR to be consolidated into a permanent relief, but would also remove the annual damaging uncertainty that businesses in receipt of SBRR face in advance of the announcement of the budget.

Recommendation: The government should examine extending Small Business Rate Relief, based on similar principles of progressive taxation seen in income tax. The smallest properties would be removed from rates altogether, with increasing tax bands for larger properties.

Recommendation: Small Business Rate Relief, either in its current form, or an enhanced form, should be consolidated into a permanent relief, rather than an annual decision on extension.

Automatic Relief

FSB is of the view that the automatic nature of the current SBRR system is one of its best features. It keeps costs low for both LPS and small businesses. In England, when businesses had to apply to receive a small business relief, FSB surveyed 240 billing authorities across England and found that the average take-up of relief was only 49% of eligible businesses.

Nearly four-fifths of respondents to FSB's survey on rates said they would be 'likely' or 'very likely' to apply in order to obtain a relief. However, fewer (46%) were willing to complete and submit a form. Only 11% would provide details of how they planned to spend the value of the relief, whilst only 7% would provide invoices or receipts of expenditure. This shows that while businesses may be willing, in theory, to apply for relief, the actual burdens that an application process places on them will exclude many small businesses from applying.[10]

It is important that all reliefs and exemptions are communicated properly, so that businesses understand the support they are receiving from government.

Recommendation: SBRR should continue to be automatic, rather than application based.

Cross Cutting Government Priorities

Rating policy shouldn't be used as a simple quick fix for social or economic problems, however, there are a number policy areas where achievement of government priorities could be aided by incentives and reliefs in the rating system. Growing the size of our business base, supporting new entrepreneurs who create wealth and jobs, making it easier to do business, and promoting employment are key roles of the Northern Ireland Executive.

In a similar vein, the draft Programme for Government states that, as the population ages and the number of people with complex care needs increases, the need to provide appropriate care and support becomes even more important. Similarly, affordable childcare is identified in numerous government strategies as a key function, with childcare providers seen as key to unlocking a number of government priorities, including increasing the proportion of people in work, reducing economic inactivity, and improving pre-school child development. Separately, access to cash in rural areas is recognised as being important for

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[10] FSB, (2017)

supporting businesses and communities as part of a strong, competitive, regionally balanced economy.

Yet in each of these instances, participants are heavily burdened by the rating system imposed by the same government that aspires to the functions provided by start-up businesses, by care homes and day-care facilities, by SMEs and even by cash machines. Inflexible demands for rates can end up sounding the death knell for the very services the government wishes to see thrive.

Start-up Relief

Most regions of the UK have largely returned to their pre-recession 5 year business survival rate. However Northern Ireland has not recovered our previous high position, being 5.8% lower than our pre-recession survival rate in 2006, and 11.5% lower than our peak pre-recession survival rate in 2003.[11] Doing more to encourage and help start-ups should be a key priority of the next government. Support should come in other areas as well, but rating policy can play its part.

The current rates system imposes a high fixed cost on property usage which has the effect of deterring start-ups from using property at all. For those start-ups with no choice but to operate from non-domestic premises, business rates present a fixed cost which is generally owed from the moment they take on premises, and which can result in significant cash flow problems while revenue streams are still being established. This can lead to the early demise of a business, as the rates hit them before they've made their first pound in turnover, never mind any profit.

FSB is calling for a dedicated rates exemption for start-ups who operate out of non-domestic properties. Ideally, this would be addressed through the introduction of a 'business allowance', as noted above, but in the first instance it could easily be established as a variation on the existing SBRR. Where some start-ups need to operate from higher value non-domestic premises that would not qualify for the enhanced SBRR, the Start-up relief should ideally involve them paying no rates in their initial phases of operation. Thereafter, the withdrawal of support should be tapered to ensure that the new rates overhead is phased in to allow the business to be fully established before becoming liable for the full rates bill.

Recommendation: The government should introduce a dedicated rates relief for start-ups.

Rural ATM Relief

Statistics from the Payment Services Regulator report that 37% of consumers prefer to use cash. It is essential that they can gain access to money, and that small businesses can continue to accept it. Going cashless should represent a genuine choice for consumers and for small businesses, not a forced one. The rapid pace of bank branch and cash point closures is hurting small businesses all over the UK, however, Northern Ireland is the most negatively affected. From January 2018 to May 2019, Northern Ireland saw almost 16% of

[11] Office for National Statistics, (2018b), *Business Demography 2017* [and previous years]

free-to-use ATMs cease operation or become fee charging.[12] This decrease was almost double that of the next highest UK region.

With many banks having closed in rural towns, ATMs are often the only way to access cash and perform basic banking functions. The suspension of rates relief for rural ATMs, due to the collapse of the devolved institutions, has added to the cost of ATMs in rural areas. Evaluations of this relief showed that it is crucial to the retention of ATMs in rural areas. Reintroduction of the relief for rural ATMs, which cost a modest £217k in 2015, is essential to allowing rural businesses and consumers to access cash and basic banking functions.

Recommendation: The government should reintroduce the rural ATMs rate relief.

Residential Homes Relief

The residential care sector has been under enormous financial pressure in recent years. This has been highlighted with a series of high profile closures of some care homes. Given the ongoing increases to the living wage it would be damaging to the sector to remove the relief when we consider the 'customers' of such homes and their likely inability to contribute towards rates.

Recommendation: The government should retain the residential care homes relief in its current form.

Childcare Relief

Access to quality, affordable childcare is essential to the development of our children while simultaneously reducing barriers for parents to play a full and valuable role in our economy. When a fully costed Northern Ireland childcare strategy is realised it will help unlock the possibility for more parents (primarily women) to enter employment, or indeed start their own business. For 34% of families, childcare is their largest monthly outgoing, larger than their rent or mortgage.[13]

Northern Ireland's unemployment rates have improved markedly but there is a significantly higher rate of economic inactivity here than elsewhere in the UK. For women who are economically inactive in Northern Ireland, their most commonly cited factor was 'caring for the family or home'.[14]

Meanwhile, childcare providers are under serious pressure. As an industry in Northern Ireland, childcare employs thousands, and facilitates many more thousands of families to work or run a business. Providers have invested many hundreds of millions in what is a property-intensive sector that faces significant rates bills. They are required by law to have larger properties, due to minimum space requirements that are specified by the authorities for each child. Furthermore, the rising cost of doing business each year means the only way providers can now survive is by increasing their fees.

All of the independent providers in Northern Ireland are small businesses, yet the vast majority do not qualify for SBRR. By contrast, both the Scottish (2017/18) and Welsh

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[12] Which, (2019), "Taking a ferry to the ATM: which areas face the longest treks to a free cash machine?"
Available at: https://www.which.co.uk/news/2019/10/taking-a-ferry-to-the-atm-which-areas-face-the-longest-treks-to-a-free-cash-machine/

[13] https://www.employersforchildcare.org/report/northern-ireland-childcare-survey-2019/

[14] NISRA, (2019), Economic Inactivity in Northern Ireland

Governments (2019) have introduced a 100 per cent relief for their respective childcare nurseries - with no cap. This is on top of a more beneficial Small Business Rates Relief scheme in both regions, and a much higher rate of investment in childcare provision itself.

Given the above context, FSB NI is calling on the Northern Ireland Executive to follow the examples set by our neighbours and create a new 100 per cent business rate relief for childcare providers in Northern Ireland. This should be at least until a new, and fully costed, Childcare Strategy is introduced.

Recommendation: The government should consider overwhelming evidence for the provision of 100% rates relief to all childcare providers in Northern Ireland.

Long Term Reform of Business Rates

Terms of Reference of the Review

FSB respects the fact that the main role of business rates is to raise money for central and local government, and the government's desire to protect the current rates take is understandable given existing financial pressures. However, as the terms of reference limit the Review to raising similar levels of revenue overall, the opportunity to use it to devise solutions which address disproportionality and fairness are also limited. Therefore we believe there is a need for a more fundamental review that addresses the issues of disproportionality in the system.

Notwithstanding, some alternatives or alterations can be found. If there is a genuine desire to grow the economy, then it is clear that measures must be taken to relieve the burden of rates. Key amongst this, the SBRR should be increased, extended and made permanent, as it is in England. This can be achieved without adding to significant pressure on public finances.

Additionally, the terms of reference highlight a number of key principles of taxation. Any resultant system should be simple, predictable, certain, hard to evade, and easy to collect. From the government's point of view, property taxes achieve all of these. It is hard to envisage a situation where the government decides to abolish local property taxes. These taxes are common across the globe, and do have a place within a broad suite of business taxation options. However, there are serious questions about how this can be achieved in a proportionate manner. While property taxes meet many of the key principles of taxation they fall down on proportionality. Any alternative system would have to replicate the positive features of rates while also addressing the disproportionate impact they have on small businesses.

Alternatives

Any alternative to property taxes would have to replicate the positive features of rates while also addressing the disproportionate impact they have on small businesses. Research suggests that other systems, including Land Value Taxes, Turnover Taxes, Local Income Taxes, or most others, are unlikely to provide a dramatic improvement to the current system, and may create a considerable amount of additional administration.

As a starting point, however, FSB urges the government to use this review to generate a road map to set out proposals for reform to the rating system. We would not expect this road map to have all the answers, but it should outline a vision for the type of rates reform that the government is planning to deliver. This vision should include the principles laid out by the government, coupled with proportionality, with each step of the process informed by associated stakeholder engagement. This will provide confidence for small businesses that their concerns on business rates are being heard.

Part of that forward planning should involve examining alternative systems in detail. The current system fails due to its lack of proportionality. Before any new system is implemented it would have to be shown that it meets the principles of taxation and is proportional. It is currently impossible to compare the existing system with potential new systems. There are no costings, projections or estimates that show whether any alternative systems would be more proportional than the current one. As the government desires the system to be revenue neutral, the likely outcome of any change is one of 'winners and losers'. Until it is determined who comprise each of the cohorts of winners and losers, then evaluation of the proportionality of the system will be impossible. While business can inform this process, it is ultimately for the government to conduct these analyses.

Recommendation: The government should produce a road map plan for business rates reform, outlining the key steps to getting to a more proportionate business rates system that is not based purely on property values.

Recommendation: The government, as part of this road map plan, should analyse alternative systems for the levying of rates on businesses. They should provide costings, projections and estimates on their impact on local businesses.

Perception of Rates

Many small businesses identify a discrepancy between their rates bill and the value they derive from that expenditure. There is a perception that rates are solely to raise local government funding. Many business owners perceive they are paying rates to help pay for leisure centres, domestic waste disposal and domestic water charges, and as such don't see value for money from the rates system. They feel their business is paying again for services for which they already pay personally through their domestic rates; whilst their business rates don't cover the cost of waste disposal services at their business nor their water charges.

Addressing these perceptions is important to improving how businesses understand and engage with rates. FSB members have largely said they are more content to pay taxes where they can see the benefits from their contributions; that is why *Business Improvement Districts* have been very popular with small businesses. If it could be shown how rates contribute directly to economic development, infrastructure, tourism, or business support, then there would be a more positive reception and engagement from business owners.

Recommendation: The Executive should re-examine how it promotes and explains business rates, with greater focus on explaining to businesses how their rates are spent on things that matter to them.

Other Reliefs

Industrial De-Rating and Freight Transport Relief

Industrial de-rating should be kept in its current form. Our manufacturing sector is one of the success stories of the Northern Ireland economy. It is no coincidence that the sector has benefited from being able to retain more of its money to invest in growth, through the

Industrial de-rating system, and it has thrived in consequence. To lose industrial de-rating would be a massive mistake and would have a significant and negative impact on Northern Ireland's manufacturers, and the associated jobs and investment they provide. Small manufacturers make up the majority of those businesses. They will suffer the biggest impact of a removal of de-rating, whilst the loss of associated jobs would reduce the number of employees contributing to the domestic rates coffers.

As industrial de-rating is a pre-EU Accession rule, removing it would mean never being able to bring it back. Any attempt to reintroduce industrial de-rating would violate European law. If removing it causes economic damage, that damage cannot be repaired by reversing the policy.

FSB also supports retaining freight transport relief. Due to our location on the periphery of the main European markets, Northern Ireland has a high dependency on sea transport of goods. The low margins in the sector mean that any increase in the costs for freight and transport businesses would be passed onto their customer base, increasing the cost of shipping goods to and from Northern Ireland.

Recommendation: The government should retain industrial de-rating and freight transport relief in their current forms.

Empty and Vacant Property Relief

At 14.1% Northern Ireland's commercial property vacancy rate has improved.[15] However, it still remains the worst in the UK, and is substantially above the UK average of 10.3%. The reoccupation of vacant properties is important for Northern Ireland's economy. FSB urges consideration of using the rates system to incentivise property occupation in addition to discouraging property vacancy.

Non-Domestic Vacant Rating

FSB supports the current exemption of rates for the smallest vacant properties, of NAV under £2,000. However, re-evaluation of Non-Domestic Vacant Rating (NDVR) for other properties is needed. FSB would support doubling the threshold of payment from three months to six months to provide for a reasonable period of time to find a new tenant, and complete the legal paperwork needed to move a new tenant into the property. After this initial period of six months, NDVR should be reduced in an effort to dis-incentivise leaving a property empty, and to ensure revenues are collectable.

Recommendation: The government should double the threshold of payment for vacant properties from three months to six months, but then phase out the relief.

Empty Premises Rates Relief

The Empty Premises Rates Relief is for those who those take on a previously empty retail property, and so in this sense it acts as an incentive to decrease vacant premises, working in tandem with Non-Domestic Vacant Rating. However, it was suspended after the collapse of the Northern Ireland Assembly.

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[15] Springboard, (2019), *Quarterly Monitor*

Along with its reintroduction, FSB supports expanding the scheme to include non-retail properties. The qualifying criterion for empty premises relief should be decreased from a full year's vacancy to six months. The relief should be also be extended from one year to two years, with the first year awarded 100% relief and 50% applying in the second year. This will help incentivise businesses to occupy empty properties.

Recommendation: The government should reintroduce and expand the empty premises relief, using a multi-year system for all properties.

Local Government Reforms

FSB supports providing powers to local councils to strike separate domestic and non-domestic rates, subject to this only being used to achieve specific economic development objectives, and provided the power can only be used to reduce the non-domestic poundage, not increase it. This would enable councils to reduce rates bills for small businesses in their area, and take initiatives to provide better support for their local economy.

FSB also supports giving councils more powers to vary business rates in response to local hardships or conditions. This would enable local councils to lower the rates bills of businesses affected, for example, by public works, natural disasters (such as floods or fires), or simply to stimulate economic activity in a small area of their council responsibilities. This would obviously need clear guidelines, such as definitions of the area, as well as set time limits and measurements to assess the effectiveness and success of the schemes.

Recommendation: Councils should receive the power to strike separate domestic and non-domestic rates, when used to lower the non-domestic poundage.

Recommendation: Councils should receive more powers to reduce business rates in response to local hardships or conditions.

Widening the Tax Base

FSB is hopeful that a new system could be developed that could replace or improve the business rates system. Inputs such as using HMRC technology may form part of a better system, however it will take time to analyse, cost and develop the systems required, and implement them effectively for businesses in Northern Ireland.

While a new tax system is being developed FSB believes that there are number of alternative funding areas that the government should explore to help widen the tax base and thus reduce the burden of rates on individual businesses.

Carpark Tax

There has been some discussion about enabling local councils to be given the power to introduce a tax on workplace car parking. On the positive side, this could contribute to local government finances while also reducing the number of commuter cars and helping Northern Ireland to achieve commitments towards net-zero carbon emissions as part of the climate change agenda. Scottish councils have recently gained the power to introduce Workplace Parking Levy. It is modelled on a scheme in Nottingham where employers offering more than 10 spaces are charged £415 a year for every space.

Whilst having merits, FSB recommends that any such proposal should require the government to carry out an in-depth feasibility study to understand all of the potential impacts of such a measure, and allow stakeholders to evaluate the positives and the negatives, as well as other changes that might need to be made to public transport to facilitate it.

Vacant Land Tax

FSB would encourage the government to examine the implications of introducing a derelict or vacant land levy. This would encourage development and dis-incentivise land banking and speculating. By way of example, the Kilkenny County Council vacant site levy could be a model the government could choose to explore, whereby vacant and underutilised sites in urban areas are taxed at a rate of three per cent of market value (increasing to 7 per cent after 12 months). The Welsh Government also intends to bring in a vacant land tax by 2021. The government should carry out a feasibility study, to determine whether the potential costs (including administrative burdens) justify the benefits, whilst also being mindful of the need for builders to have certainty of a pipeline of opportunity to maintain their businesses, especially in light of a slow and uncertain planning system.

Online Transaction Tax

Retailers currently account for 24% of the business rates burden in Northern Ireland. That equates to around £157 million, however an estimated 18% of all retail sales in the United Kingdom come from online sales, so it is reasonable to consider that a relevant proportion of rates revenue might be raised from online retail.

However, an additional factor that should be considered is *where* such a levy would be applied. There could be potential risks to having a Northern Ireland-only online transaction or sales tax. Many retailers may not generate enough sales from Northern Ireland to justify dedicating extra resources to determining whether a person has to pay a Northern Ireland sales tax. The result could be one where Northern Ireland consumers are excluded from many online retail markets. No tax should come at the price of a proliferation of "not available in Northern Ireland" products, so any online transaction or sales tax must be explored at a UK-wide level. While public perception of online retail is one of giants like Amazon there needs to be consideration to the impact this would have on small online retailers who may not be able to survive an increase in their trading taxes.

Recommendation: The government, in the interim before any new system is developed, should look at other options of expanding the tax base to help reduce the burden placed on ratepayers.

Previous Submissions

Our response to the consultation sits in the context of our previous submissions over many years. This includes, in addition to others, the 'Rates Rethink' consultation[16], the 'Alternatives to the Small Business Rate Relief Scheme' consultation[17], and the 'Review the of Non-Domestic Rating System' consultation[18].

16 https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-ni-response-to-rates-rethink-consultation.pdf
17 https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-ni-sbrr-alternatives-response-may-2016.pdf
18 https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-response-to-review-of-non-domestic-rating-system-(january-2016).pdf