Appendix 1

1. How can revenues from district and regional rates be raised in a way that is fair and equitable and without placing an unacceptable burden on business ratepayers?

The Council supports the key principles previously outlined by the Department in its 2016 consultation document on the Review of the Non-Domestic Rate i.e. Revenue Neutral; Efficient and Cost Effective; Certain and Simple; Flexibility and Equity/fairness which have been carried forward into the current consultation document.

Revenue from the district and regional rates are based on a property tax and the Council is of the opinion that the current property tax base which is well understood, is still an appropriate way to fund services. The Council recommends that taxing occupation, which generally operates effectively, should continue unless sufficient information currently exists to tax ownership, and unless the benefit arising would outweigh the costs of implementing and maintaining such a change.

The Council believes that all forms of business with a property should pay a proportionate element of the rate burden. However, it is important to note that the Council acknowledges that a property tax does not adequately cover all aspects of the fast-growing digital economy, which needs to be further considered as part of any policy change.

Revaluations.

The Council welcomes the more frequent valuations (currently every 5 years) undertaken by the Department which will lead to a more equitable rating system, mitigating the severity of the impact of changes which arise when revaluations are delayed, and that the regime which has now been established should be retained and included within legislation. Fluctuations in open market rental valuations, particularly downward trends, can result in businesses paying significantly higher rates than the open market rental value of their properties would normally determine.

The Council supports the retention of the current system using Net Annual Valuations for setting Non-Domestic Rates and recommends that a switch to any alternative valuation basis should only be considered if such a major change would fit with the key principles of taxation and would not impact negatively on the market place or the economy.

The Council understands the concerns expressed about ability to pay but believes, as expressed in the consultation paper, that it may be impractical to operate a system better reflecting 'ability to pay' on a yearly basis. The Council, therefore, largely supports the retention of the current system, as it represents a reasonable basis which aligns to the simple capital valuation of a domestic property, although the Council would be happy to consider practical ideas coming forward as a result of this consultation. The occupation of a business property, as with a house, will, more often than not, correspond with ability to pay.

Collection.
The Council recognises that there is merit in retaining the centralised rate collection body as currently exists. Whilst the Council welcomes the current investment in its new computerised system (Nova) for rates collection and online billing, it is clear that further integration is required, and the Council would strongly recommend that funds for such technological investment should be prioritised, to minimise the cost of collection of annual rates from both the domestic and non-domestic ratepayers.

The Council would strongly advocate that Land & Property Services (LPS) needs to be more accountable to local councils for its collection performance along with the costs levied on councils for collection and other matters. A review of appropriate legislation is required to demonstrate fairness and equity in relation to write-offs linked to a review of the valuation appeals process to ensure greater transparency and fairness.

The Council believes that it is in everyone's interest to ensure that collection rates are maximised, and costs of collection minimised, thereby increasing net revenue raised to the benefit of all. The Council is extremely keen to see the development of a better partnership approach between councils and LPS, to develop better 'policing' of rates evasion, utilising the skills of building control and other council staff.

The Council believes that the need for transparency, simplicity and increased accountability is the key to any policy regarding rates. The public should be able to understand all charges levied upon them and know what they are used for.

2. What ways can be found to widen the tax base that could facilitate a lower level of business rates?

The Council recommends that more bodies should be brought into the scope of the rating system (bearing in mind equity and proportionality) and believes that the widening of the tax base will allow the overall tax burden to be mitigated among existing taxpayers. Steps should be taken to ensure that the collection rate is increased, along with cost savings in the collection process, that more intense inspection of properties takes place and that greater use of data sharing with councils and other bodies such as utility companies, the Electoral Office and the Post Office/Royal Mail is undertaken.

The Council believes that all forms of business with a property should pay a proportionate element of the rate burden. Some examples are detailed below but do not reflect the entire potential tax base.

The Council recognises that the adoption and spread of digital technology has contributed to significant increases in productivity, economic growth and consumer choice, welcomes these positive trends and the important contribution made to the economy by its fast-growing digital tech sector. The OECD’s Base Erosion and Profit Sharing (BEPS) Action Plan recognises the need for modernisation and has achieved quite a lot since the issue of its reports in October 2015. However, specific recommendations on digital taxation have been limited and the Organisation for Economic Co-operation and Development (OECD) calls for an international consensus on the way forward have so far been unheeded. The Council is of the opinion that an online sales tax would not benefit businesses operating in Northern Ireland unless there is evidential information on the cost and benefits of such a tax and that this information should be consolidated before online sales tax is considered.

The Council is also of the opinion that research should be undertaken into derelict land tax for all unused and derelict sites to determine its potential to add to the tax base which may also share the rate burden on a more equitable basis and potentially have a positive impact on the economy.

The Council believes that although the introduction of a Land Value Tax would have some merits, it is not thought to be appropriate for Northern Ireland at this time. The Council would argue that a tax on vacant land would help to widen the tax base but recognises that it raises the question of how to treat vacant agricultural land or commercial processing on agricultural land. This opinion is similar to the previous opinion expressed by the Institute of Revenues Rating and Valuation (IRRV). The Council does not currently support further work being carried out on this issue. The Council is aware that this type of tax is used in a few jurisdictions, and the Northern Ireland Council for Voluntary Action (NICVA) launched a report advocating this locally but that as part of the 2016 Rates Consultation Innovation Lab and an IRRV Conference, it was argued that this type of tax was not an appropriate solution in this jurisdiction.

The Council believes that commercial activity on exempt parks and land vested in recreation should pay the equivalent level of rates as similar activity elsewhere, to ensure fairness. However, the Council’s view is that there must be no change to the current system of taxation of public sector organisations that results in reduced income for Councils, unless the Councils are compensated in full against such changes.
The Council is of the opinion that the primary focus of the rating system is to generate revenue, however, the rating system should be flexible to take account of economic development activities.

3. **How can a fair distribution between district rates and regional rates be sustained?**
4. **How can a fair distribution between non-domestic and domestic rates be sustained?**

The Council does not have any involvement in setting the non-domestic regional rate and has always indicated the need to have a regional rate set before the Council sets its own district rate to ensure, so far as possible, that the total annual rates bill is affordable to local ratepayers.

The net annual valuation (NAV) of non-domestic properties is used as a factor in setting non-domestic rates for both the regional and district rate. The District Rate for the domestic sector is calculated by applying a conversion factor to the non-domestic rate as the domestic properties are valued, for rate setting purposes, on a capital value basis instead of a NAV. The fairness of distribution therefore relies on the different valuation basis being appropriate and the conversion factor which is a significantly complex calculation developed by the Department of Finance, that considers numerous factors. The formula has not been reviewed in the recent past, and the conversion factor has the potential to place an unfair burden on one set of ratepayers over the other.

The Council recommends that the domestic sector properties should undergo more frequent revaluations in line with the non-domestic sector to support the key principles of the Department.

The Council acknowledges that councils having the power to strike separate domestic and non-domestic rates could shape the future of the Council area and would enable the Council to tailor rates to local needs. Such power would enable District Councils to set one rate across the district, should it wish to do so, and remove the conversion factor, a review of which is long overdue. The Council is strongly of the opinion that it should be compensated in full for the elements contained within the de-rating grant.

The Council recommends that there is a review reliefs and exemptions in the rating system across the non-domestic and domestic rates base, in order that one sector of the rates base is not prejudiced against the other. Legislation should be reviewed to remove any potential to avoid a charge or payment of rates and to ensure that the legislation is fair to both the domestic and non-domestic sectors.

The Council is aware of the potential benefit if Councils had powers for granting relief, however, more detail would need to be provided by the Department as to how such reliefs would operate in practice, and there is concern that invoking such power will have a negative impact on the Council area and may also raise State Aid issues. The Council is concerned that some of the wealthier councils would be in a position to fund relief which could potentially exacerbate current gaps between the wealth of councils.

5. What reliefs and supports are necessary and might be introduced, changed or ended, targeted in line with Executive priorities and recognising ability to pay?

The Council recommends that the current system of reliefs should be reviewed, and that each element of rates support should be examined in detail to determine whether they remain fit for purpose and that they continue to meet the principle of fairness and are equitable. It is important that a single comprehensive guide on how Business Rate Reliefs operate is made available to provide clarity for business on what discretionary reliefs they may be eligible for, and what steps must be taken to claim them.

The Council is of the opinion that any new system of reliefs should incentivise businesses to accelerate business growth and encourage new business start-ups particularly in town centres. In addition, consideration of some element of relief for the renewable energy sector with proven links to improving climate change and for rural properties that provide key services in designated rural settlements, should be considered.

The Council believes that the rating system needs to take account of ability to pay, and that any future rate support must allow the rating system to respond to changing economic condition, but must be considered against established guiding principles that are based on the key principles of taxation.

The Council has considered the current exemptions reliefs that operates within the non-domestic rating system.

a) Charitable exemption

The Council recognises that this is the largest area of relief and an area that must be reviewed. In relation to contributing to the achievement of the objectives within the Programme for Government, the Council recognises the important contribution made by the Charity Sector in providing volunteering opportunities, diverting waste from landfill, and enabling people on low incomes to benefit from access to good quality clothing at affordable prices.

The Council believes however that the cumulative impact of multiple charity outlets on the high street is having a particularly damaging effect on the independent retail sector, given that charity shops are filling vacant properties but attracting rates exemptions.

The Council is of the opinion that DFP should consider reducing the current level of 100% non-domestic exemption, particularly to those charities who have significant income (data that is held by the Charity Commission), including those who directly compete with commercial undertakings. The rates liability for such charities must reflect ability to pay.

b) Industrial derating

The Council's view is that no change should be made in the short-term to industrial de-rating relief which is currently 70%, and that any future review should be deferred until a further evaluation is carried out to consider the impact of reducing or removing this relief within the wider economic policy context. This should also consider issues such as attracting inward investment, any potential loss of employment, the reduction in corporation tax, the increase in the national living wage and other general employer costs. The Council recommends that consideration be given to providing a more attractive level of relief to manufacturing companies that operate in those areas of Northern Ireland that are unlikely to be successful in attracting Foreign Direct Investment.

The Council strongly argues that the De-rating grant, payable to Councils, must be protected.

c) Vacant Property Rating

The Council recommends that a period of 3 months for 100% relief for vacant properties should continue.

The Council is aware that there is a substantial loss of revenue to the rating system of 50% vacant rating relief, however, the context of unoccupied retail high street property in Northern Ireland indicates a need for the 50% relief.

The Council notes that the 2009 review of this relief suggested its retention at the 50% level in order to help property owners mitigate the impact of the recession.

The Council is also of the opinion that the 50% relief could be subject to further review as and when there is strong economic recovery, at which stage a tapered relief could apply based on the length of vacancy.

d) Small Business Rate Relief (SBRR) (including enhanced Post Office relief)

The small business rate relief scheme was introduced by the Executive in April 2010 to provide help to small business premises across a wide range of sectors. In 2018 there were a total of 132.7 thousand small and medium sized enterprises throughout Northern Ireland. SBRR supports the ingenuity and growth that of many self-employed people and of many people who have struggled to get the wherewithal to get things started. SBRR reduces business overheads and makes the crucial first year of trading easier for many and could help them move into a profit base much more easily.

The Council is of the opinion that a review of this relief, which provides business properties with a reduction of either 50% (net annual valuation of £2,000), 25% (net annual valuation of more than £2,000 but no more than £5,000) and 20% (net annual valuation between £5,001 and £15,000) should be undertaken, in order to ensure that the relief provides the optimum solution of both raising income and supporting business growth.

The **Small Business Rate Relief for small Post Offices** is part of Northern Ireland government initiative, the aim of which is to help maintain services in disadvantaged areas, particularly smaller, independent Post Offices. The Council is of the opinion that this relief, which varies from 100% to 50% to 20% depending on the net annual valuation of the Post Office, should be maintained to support the original principle upon which it was established.

e) Residential Homes Rate Relief

The Council recommends that a review of this relief, which was established in 1977, and which is currently 100% should be undertaken. The Council believes that whilst a fair and equitable rating system should see privately run homes paying some level of rates, it would be inappropriate at the present time to remove this relief in its entirety. The outcome of any review should not have a detrimental impact on the provision of health care by the public or private sector.

f) Sport and Recreation Relief

The Council considers that the relief of 80% (100% relief to Community Amateur Sports Clubs who do not have a full licence to sell alcohol) should be maintained as the provision of sport and recreation facilities is a vital contributor to public health and well-being and is of the opinion that a clear distinction is made between amateur and ‘not for profit’ sports clubs/facilities and private sector (profit making) facilities. Any reduction in this relief is likely to have a negative impact on public health policy.

The Council considers that the criteria used to determine whether social facilities would attract 80% be reviewed to restrict substantial profit making adjoining social facilities from attracting the full 80% relief.

The Council is strongly of the view that the provision of facilities for sport and recreation by local authorities should continue to attract 100% relief, as there is a statutory duty for local authorities to provide these facilities

Council-run leisure facilities operate at a substantial loss despite entry fees being charged, and any move to impose rates on such facilities would inevitably lead to this cost being directly recouped from ratepayers, either in general or by increasing charges. The Council would hence, not support any proposal to levy rates on such facilities and would also argue that municipal golf courses are a further facility provided to the public at such a substantial discount that they do not, in effect, compete with privately run courses. DFP is recommended to take into account the statutory obligation on councils to provide leisure facilities, which are quite distinct from private facilities.

g) Freight and Transport Relief

The Council is of the opinion that this relief, currently 75%, should be retained, as the consequences of removing this relief may impact negatively on trade, given that Northern Ireland is located on the periphery of both the UK and Europe.

h) Hardship Relief and Rural ATMs

The Council is of the opinion that both the hardship relief (given up to a maximum of 100%), the intention of which is to **assist a business recover from a temporary crisis**, financial or otherwise, as a result of exceptional circumstances should remain.

The Council is of the opinion that the Rural ATM exemption, which is currently suspended, should remain and that all rural ATMs whether stand-alone or within rural shops should be provided with an exemption from rates liability.

The Council believes that a comprehensive review of reliefs should be carried out. The Council would advocate ending full relief for the charitable sector, the 50% relief for vacant non-domestic properties and SBRR, along with a reduction in the relief for de-rated properties. The precise proportion of rates payable going forward by these bodies should be the subject of the review. The Council believes that future reliefs and exemptions should be targeted on areas and schemes which will assist in widening the tax base and on those ratepayers whose ability to pay is less. Furthermore, it is essential that a set of guiding principles for reliefs is introduced, to include clear information about the purpose of reliefs and exemptions, ; that reliefs should potentially be time bound, with well-defined timescales and that reliefs should be targeted – for example, at specific sectors, ability to pay or economic growth.

6. What alternative taxation options should be considered to complement or partially replace property based non-domestic rates and to allow for lower levels of revenue from business rates?

The Council supports the principles of efficiency, certainty, simplicity, flexibility, proportionality, equity/fairness, which were outlined in the Department's 2016 Consultation Document on the review of the non-domestic rating system. It is the view of the Council that a property-based tax is well-understood and should be retained in Northern Ireland, and although the Council is aware that other options were considered at the 2016 Innovation Lab, we understand that no viable alternative was proposed by participants, at that time.

The Council would believe exploring any alternative form of taxation would be "extremely challenging and be unlikely to deliver significant additional benefits" at this time; however, the Council would support the commissioning of a study in relation to raising revenue within the context of the council 'General Power of Competence'. The Department may wish to consider this suggestion as it carries this work forward.

The Council thanks the Department for ensuring continuing local government involvement in the development of new rates policy. We trust that the views of the Council will be taken on board within the consideration of the way forward following the closure of this consultation.