LOCAL TAX FLEXIBILITIES

POLICY DESIGN - POWER TO REDUCE THE MULTIPLIER

Purpose

1. This is a Government paper to seek views on proposals for the detailed policy design of the power to reduce the business rates multiplier.

Background

2. A key part of the Government's business rates retention reforms is the devolving of tax setting powers, including the ability to reduce the business rates multiplier. This group has been tasked by the steering group with developing the policy detail of that measure and have already provided helpful initial thoughts. This paper now seeks views on a possible detailed design option.

Issues

Scope of the power to reduce the multiplier

3. When announced this power was envisaged as providing authorities with the ability to make structural changes to their tax regimes – i.e. provide an across the board reduction in the multiplier – as authorities already have the power to provide targeted local discounts. The Small Business Rate Relief supplement would apply in the usual way.

4. The key difference between the power to reduce the multiplier and local discounts is that local discounts are applied to bills after transitional and mandatory reliefs. Therefore, the local discount could not be used to make the desired structural changes to the multiplier. This therefore supports the idea that authorities would use the power to reduce the multiplier as the structural power and the local discounts power for targeted relief.

5. It was suggested at the first Group meeting that it should be possible to set a rateable value cap, or caps, for the multiplier reduction. So, for example, high value properties could be excluded from the reduction. This could be a useful extension of the original policy aim. It has also been suggested that a reduction could apply across a defined geographic area within an authority.

6. However, state aid issues also need to be considered. Any reduction which applies across an administrative area would probably not be considered state aid. However, more tailored reductions are more likely to be state aid (and would potentially therefore need to be delivered within de minimis rules as is generally the case with local discounts).

Period of any reduction to the multiplier

7. In terms of the length of any reduction, the main issues may be that businesses would wish to have certainty for financial planning purposes while authorities would need the flexibility to manage their finances. Probably the obvious option is that any reduction should be for a minimum of a year and apply for a number of whole years.

Decision making and costs associated with reducing the multiplier

8. In single tier areas this matter is straightforward as the relevant authority would take the decision and meet the costs.

9. In two tier areas, things are more complicated. The power could be given to a single tier, perhaps the one considered to be the most responsible for “strategic” decision making, but another option may be for either authority to be able to take the decision to reduce the multiplier

10. However, there is obviously the question of how that reduction would be funded. Ideally, the authorities in question would make a joint decision to reduce the multiplier and also decide how the reduction would be funded. However, should only one authority wish to reduce the multiplier the question is whether that authority should meet the costs entirely or whether the costs should be shared according to tier splits (as is the case now for local discounts where the district takes the decision and the costs fall in line with tier splits).

11. It may be considered fairest for the authority making the decision to meet the costs. That would mean, for example, that – assuming for illustrative purposes that the tier splits were 20/80 between the county and district respectively - a county could reduce the multiplier by 20% and therefore receive no income from business rates or even 30% and receive no income from business rates and also have to find the 10% reduction imposed on the district.

12. There is also the question of whether to give fire authorities the power to reduce the multiplier.

13. We will also need to make provision for combined authority areas once thinking in that area is sufficiently developed.

14. It should be noted that there is also an interaction with mandatory reliefs here as any decision to reduce the multiplier would reduce the amount of mandatory relief that would be granted. That matter will be considered at a later stage.

Safeguards for neighbouring authorities

15. As mentioned above, the purpose of providing authorities with the power to reduce the multiplier is to provide opportunities to tailor tax regimes to the local trading environment. An authority may therefore reduce the multiplier in order to encourage business in to the area. As all authorities would have similar powers the

Government does not envisage introducing safeguards to mitigate against any potential impacts. However, rather than being regarded as healthy competition some may instead view that as something for which safeguards should be introduced. It may be thought, for example, that some authorities have, for financial reasons, a greater opportunity to reduce the multiplier than a neighbour and that reduction would create greater disparity. So some may believe that safeguards should be put in place to protect neighbouring authorities, such as a requirement to consult or a power of veto.

Increasing the multiplier after a reduction

16. If the multiplier is reduced there is a question about how the multiplier could subsequently be increased to catch-up with the "normal" inflation linked multiplier. In other words, should an authority be allowed to increase a previously reduced multiplier up to the current year's national multiplier regardless of the percentage increase this imposes on ratepayers, or should there be a maximum permitted increase in any year (an adjustment would need to be made in revaluation years to take account of the change in the multiplier). Allowing authorities to catch up as they see fit could mean that businesses are potentially faced with significant increases. However, capping the rate of increase after a reduction may influence an authorities' decision to reduce the multiplier in the first place.

Other Issues

17. Any there any other issues which the Group believes require decision at this stage?