Business rates – how are they changing?

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Everyone from your local shop to organisational giants are calling for the government to take action for businesses. Rates have increased across the board, as inflation stagnates at an unsustainable level. Since the advent of the 2023 rating list, many business rates payers across England and Wales will have seen significant increases in their rates bill.

Why is this?

Some of it can be attributed to inflation certainly. As the cost of running a business – from energy prices, wages, to supply issues – rises, taxes and interest rates have risen too in an effort to control inflation. For commercial property owners/tenants/landlords perhaps the most prevalent of this is the commercial property tax known as business rates.

In November 2022, after a frankly disastrous mini budget, the government revealed a £13.6 billion short-term support package to help businesses. However, what was not announced at this point was that roughly two-thirds of this support package had already been in place. Therefore, the actual additional support businesses would receive from November 2022 would be worth only £4.5 billion. The retail sector, for example, are currently staring down the barrel of a gun with no guarantee that there will even be a retail hospitality and leisure (RHL) relief after the 1st of
April 2024, as it stands. A policy introduced in this short-term support package that is proving just how short-term, it really is.

Another part of this short-term support package was the decision to freeze the current multipliers (2021/2022) at 49.9p and 51.2p and extend them for the next rating list. Typically, in a rating list, the multiplies increase slightly each year, and then drop at the beginning of the next rating list. Conversely, this did not happen. Instead, the government froze the multipliers not only at their highest level of the previous rating list (2017 rating list) but also at the highest level that the multipliers have ever been since they were introduced in 1990
(at 34.8p).

Framed as a supportive policy, freezing the multipliers has in fact acted only to raise people's rates bills.

"Bundling it in with this support package was a clever bit of misdirection really." Anthony Hughes, Managing Director of business rates reduction specialist RVA Surveyors
said.

"When calculating business rates, everyone tends to focus on the rateable value (RV) you know, what the physical aspects of a property add up to. Multipliers kind of get pushed right to the very end, which is how the government have managed to slip this stealth increase in, and commercial property owners and tenants are now seeing."

In March 2023, insolvencies
in England and Wales increased by 16% compared to March 2022. Even in the retail sector, which the government very proudly declared would see a -10% decrease, businesses owners and leaders are considering
shutting their doors for good.

"It's not surprising what we're seeing now," Hughes explained. "It's sad, and very frustrating, but unfortunately this stealth increase was very much on the government's agenda, and they were going to push it through, and now it's the small businesses that are going to be the ones who struggle the most."

The official average overall RV increase for the 2023 rating list, according to the Valuation Office Agency (VOA), was to be 7.1% for England and Wales. Bearing in mind however that this is national average, and thus does not take into account individuals property's attributes – such as unique features, industry, or geographical location. All of which are factors which an affect the RV. Given this, many business rate payers are in fact seeing an average increase of around 14%. When calculating business rates, it would be this new RV (for the 2023 rating list) that must now be multiplied by the relevant multiplier – which has been frozen at a higher peak than if government had restarted at a normal rating period rate.

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“We saw a lot of confusion over this,” Hughes continued, “People expected that 7.1% increase to be the only one, but they hadn’t factored in that their multiplier had also increased compared to what typically happens. This mean that whatever their RV increase was, suddenly resulting in a much higher rates bill.”

The 2023 rating list came into effect on the 1st of April. While business rates payers can no longer submit cases challenging potential backdated overpayments for the previous rating list, ensuring that current and future business rates are accurate and fair is vital to the survival of many industries, if not the UK economy itself.

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