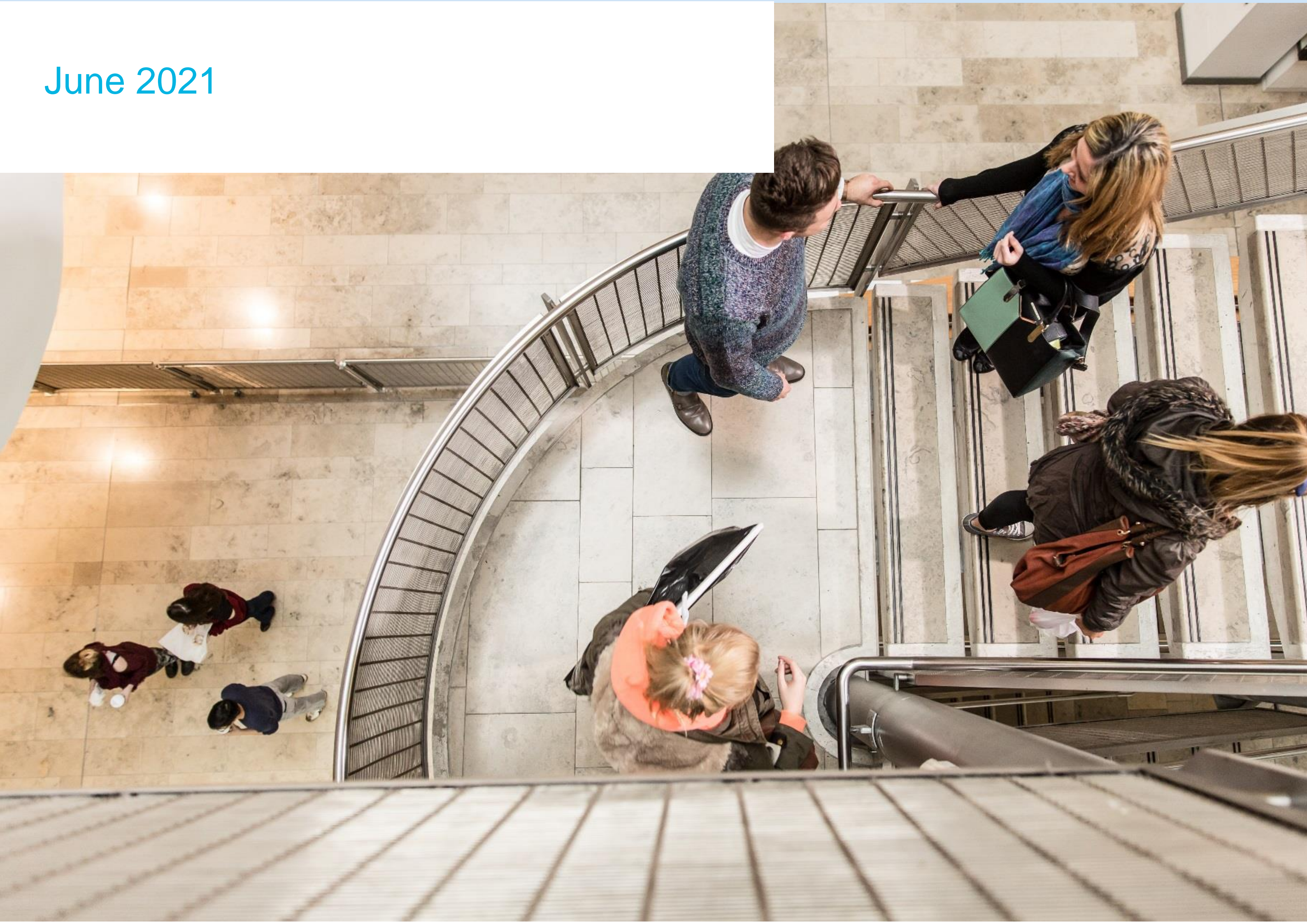
Ulster University
Economic Policy Centre

Non-domestic rates

UUEPC evidence paper for Committee of Finance

June 2021



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1. Introduction

Background

1. The Ulster University Economic Policy Centre (UUEPC) was invited by the Northern Ireland Committee of Finance to provide written and oral evidence "*on the need for business rates initiatives in order to support a post Covid-19 economic recovery and in respect of longer-term reforms to the non-domestic rating system*".

2. This paper provides a written response to Committee members.

Issues with the current rating system

3. The following issues have been identified with the current non-domestic rating system:

    - Disincentivises investment – as landlords invest in their property, typically the NAV increases and hence they are penalised with an increased rates liability;
    - Revaluations had been infrequent and therefore the rates liability did not always reflect current market conditions. However, this has improved more recently with the last revaluations being undertaken in 2015 and then 2020;
    - The wide range of reliefs increase the burden on a relatively narrow group of businesses and there is resistance to remove when introduced;
    - For many there is a lack of understanding between the rates charge and the services provided (although work has been done more recently to provide more information).

Format of response

4. This paper includes the following sections:

    - Financial background – non-domestic rates, along with domestic rates, is the most significant tax policy devolved to Northern Ireland and fundamental change could have major financial implications for overall spending by both the NI Executive and District Councils.
    - Reforming the rating system:
        - to support post-Covid recovery; and
        - longer term reform.

2. Financial background

Total revenue raised

Table 2.1: Total Rates Revenue received 2020/21 (Provisional)

	Domestic	Non-Domestic	Total
District	£339.8m	£295.1m	£634.9m
Regional	£397.8m	£345.5m	£743.3m
Total	**£737.6m**	**£640.6m**	**£1,378.2m**
	53.5%	**46.5%**	**-**

Source: DoF

1. A total of £1,378.2m of rates revenue was raised in 2020/21, before deducting for the business rates holiday which cost approximately £290 million. The rates holiday was paid exclusively from the Regional Rate, i.e. the portion of rate income that is raised for the NI Executive. This is a COVID relief and not part of the normal group of reliefs.

2. District Council income was largely protected as a result of the business rates holiday. Without the COVID rates holiday it is highly likely that there would have been significant non-payment of rates and very high levels of bad debt. Furthermore, due to the lower levels of bad debt resulting in write-off during 2020/21, the district income was likely higher than it would have otherwise been.

3. The proportion of rates raised from residents (domestic) is only marginally greater than the proportion of rates raised from businesses (non-domestic), but there are significantly more residential properties than commercial properties (approximate ratio of 10:1).

4. In addition, it is important to recognise that councils are highly reliant on rates income, securing 79% of their total revenue from that source, with most of the remainder from charging for services. As a result, rates income has to be stable and reliable for council budgeting purposes.

Cost of non-domestic rates reliefs

Table 2.2: Cost of individual relief 2020/21

Relief	**Estimated Cost**
Industrial De-rating	£56.9m
Exemptions (e.g. churches, charities)	£101.8m
Vacant Property	£31.6m
Small Business Rates Relief	£18.3m
Residential Care Homes	£10.4m
Sports & Recreational	£4.4m
Freight & Transport	£2.2m
Agricultural Land & Buildings	Not valued
Total	**£225.6m**

Source: DoF

5. The following comments are made in respect of the reliefs offered:

- Total reliefs are equivalent to 26% of total non-domestic rates revenue raised. This is NOT a recommendation to abolish all reliefs; however, it is worth noting that abolition of all reliefs would allow the range of 'pence in the pound' rates at which this tax is applied to be reduced from 50p to 59p at present to 37p to 43.7p while raising the same revenue;

- The need for reliefs suggests a charge that is too high for some sectors/ groups, which in turn puts a greater burden on other rate-payers.

- The single biggest cost is in respect of 'Exemptions' a further breakdown of this cost was not available but includes churches and charities. There is a long-standing tradition of not taxing religious or charitable institutions. Furthermore, previous consultations with officials indicated that churches made up the largest share of exemptions and charity shops a relatively small proportion.

Comparisons with other parts of the UK

6. Table 2.3 below sets out the non-domestic rates poundage across the four UK nations. This is the amount applied to the NAV (Net Annual Value or rental value) of the property to calculate the rates liability. The poundage varies across council areas.

Non-domestic

Table 2.3: Non-domestic rates poundage across the UK, 2021/22

	Poundage
Northern Ireland	£0.500 - £0.590
England	£0.499 - £0.512
Scotland	£0.490 - £0.503
Wales	£0.535

Source: DoF

Domestic

7. Table 2.4 below sets out the average domestic rates bills across the four UK nations. Domestic rates are calculated based on capital value (rather than rental value) of the property.

Table 2.4: Average domestic council tax/ rates bills and water charges across the UK, 2021/22

	Average Council Tax/ Rates bill	Average Water & Sewerage	Total
Northern Ireland	£1,036	0	£1,036
England	£1,428	£408	£1,836
Scotland	£1,198	£383	£1,581
Wales	£1,544	£408	£1,952

Source: DoF

8. The following comments are made on the non-domestic and domestic comparisons:

- England, Scotland and Wales each have a Uniform Business Rate (UBR) which applies across all local authority areas. The total non-domestic rates poundages have a much broader range in NI due to the 11 district rates, and although the lower boundary is now similar, the upper boundary is significantly greater than other parts of the UK;

- In contrast average domestic rates are significantly lower in NI, which becomes even more stark with the inclusion of water charges; and

- Whilst there may be a 'need' for a higher rate poundage in areas with lower NAV and capital values to raise the same total revenues, at least some of this impact should be alleviated by the Department for Communities Rates Support Grant.

Policy considerations

9. The following policy considerations are suggested based on the analysis of the financial information available:

    - Scope to shift some of the burden from non-domestic to domestic ratepayers – relative to the rest of the UK, domestic ratepayers in NI are under-charged;

    - Splitting the domestic and non-domestic conversion factor – historically councils could only strike the non-domestic rate and the domestic rate was then automatically set, so the balance between the two was fixed. However, this link has now been broken and councils have been given the power to set domestic and non-domestic rates independently. This creates the scope for councils to choose to increase the domestic rate at a higher level. In addition, the Executive could put a cap on non-domestic district rate and over time the burden would shift;

    - Conduct an holistic review of all reliefs – there may be a strong rationale for the existence of all individual reliefs, but it is only by considering the reliefs in their totality against the Executive's overall policy intentions, that a reasonable assessment could be made on the benefit of each individual relief.

3. Reforming the rating system

Introduction

1. This section discusses using the rating system to support COVID recovery in the first instance and then secondly longer term, more fundamental proposals for reform.

Supporting COVID recovery

2. The UUEPC provided advice to the Minister of Finance on targeting non-domestic rates relief to those parts of the economy most impacted by COVID. This covered two periods, firstly from July 2020 to March 2021 and then a second paper was produced on extending reliefs into the 2021/22 financial year. The UUEPC Director presented evidence to this Committee on the initial research. Both papers are available on the publications page of the UUEPC website[1].

Non-domestic rates relief was critical during lockdown

3. The UUEPC consulted with a range of businesses and representative bodies and found that the non-domestic rates relief was a critical component of the overall support packages put in place. **Many businesses indicated that they would simply have ceased trading if COVID rates relief had not been granted**.

Reducing the burden as part of a recovery strategy

4. In terms of supporting COVID recovery in the short term, it is important to recognise that **rates is, first and foremost, a property based tax for raising revenue rather than an economic development measure** and therefore to provide a basis for recovery the most effective short-term measure is to continue to maintain a reduced burden on many businesses at least until restrictions are lifted. However, this should not necessarily mean that blanket relief should continue to be offered. The following points are made in this regard:

    - Relief should be targeted – from an affordability perspective and to ensure that relief can be given to those in greatest need for as long as necessary;

    - In some instances, beyond the period in which restrictions are in place – it is recognised that many businesses have suffered significant financial damage and which will take some time to recover. This will mean that relief should extend beyond the period for which restrictions remain in place, but only for those in greatest need;

    - But only for as long as is required – given all reliefs are essentially revenue forgone, it is unrealistic to expect that full relief could be kept in place until

[1] https://www.ulster.ac.uk/epc/publications

businesses have returned to their pre-pandemic levels of financial health, the aim should be to be to keep some reliefs in place to give the best chance of survival, not allow the rebuilding of lost surpluses;

- Potential consideration for the removal of the relief to be tapered – this may be a challenge given funding for the relief could be constrained within a one year funding envelope, but consideration should be given to removing relief on a tapered basis. Alternatively, as stated further below there may be a need to allow some businesses to reschedule their rates payments over a longer period of time;

- Survival and recovery requires a broad range of supports – rates relief is only one tool in the 'policy box' and **rates relief is primarily a time-dated survival tool**, therefore it is important that the Executive continue to use a wide range of policy measures in addition to those put in place by Westminster to encourage economic recovery.

- Greater reform is for the long term (see below) – using the rating system to deliver longer term economic growth would require more fundamental reform and this is discussed below.

Rescheduling rates liability for some businesses

5. Businesses in targeted sectors currently benefit from a rates holiday, but this relief will end and for some businesses, the financial strain caused by other debts such as unpaid rent may be such that repayment flexibility is required, for example in the form of rescheduling payments.

6. LPS typically agree extended payment arrangements with ratepayers facing financial difficulty. While these arrangements are desirable in terms of assisting businesses in coping with the impacts of the pandemic, it is important to note that offering more flexible payment terms could also present budgetary and financial difficulties for Government, for example:

   - if large numbers of businesses seek the more favourable terms which defer payment to future years, in-year cash collection will be reduced, creating a funding issue for both central and local government;

   - end-year rating debt will increase; and

   - it may simply delay rather than prevent the failure of businesses and in turn prolong the period of recovery.

Proposals for fundamental reform

A property tax should be retained

7. Reform of the rating system has been a long-standing issue, and some responses to previous Department of Finance consultations have commented that the system is "not fit for purpose". This suggests a system that requires root and branch reform or even a move away from this method of raising revenues for public services altogether. However, property-based taxes remain in place all over the world and furthermore, it is important that governments have a broad range of taxes at their disposal to spread the tax burden as much as possible and to ensure tax raising is not concentrated on small groups in society or on restricted sources.

8. In an era where governments will come under increasing pressure to reduce deficits and with limited evidence of a more effective alternative, moving away from a long-established form of taxation would not be recommended. **It is therefore strongly suggested that some form of local property tax should be retained.**

9. In addition, when representative bodies call for a reform to the rates system, it is typically with the view to reducing the overall rates liability post-reform. If the aim is to reduce taxes, then governments just need to reduce the rate, therefore reform should primarily be based on an improved way to raise the same level of revenue – i.e. it is cost neutral. As a consequence, **it is important to separate the calls for true reform from the calls to transfer the tax to someone else**.

Principles for a property tax

10. A property tax (as with all taxes) should have the following basic principles:

    - Efficient and easy to collect;
    - Fair and open – to encourage compliance;
    - Simple, stable and predictable – this is critical for government to forecast revenue and businesses to have 'no surprises' and have confidence to invest;
    - Flexible (to address changing circumstances); and
    - Limit negative consequences.

11. Any changes to the current rating system should improve at least one of these principles without causing detriment to another.

Regular and frequent revaluations

12. Revaluations are overall a revenue neutral exercise and they redistribute the burden, but regular and frequent revaluations bring many benefits:

    - Ensures fairness as the tax liability is based on the current (rather than a dated) rental value of the property and one group are not benefitting at the expense of another;

    - Reflects current market conditions – areas with higher rents (typically based on economic success) share a greater proportion of the burden and those with lower rents have reduced burden;

    - Minimises the potential for significant changes to individual rates bills as rental values are kept current;

13. The consensus view is that revaluations should be undertaken at least every 5 years but given the level of economic change, probably every 3 years, which could be mandated in legislation. This would typically be in line with the average commercial property rent review period.

14. Regular revaluations could be facilitated by maintaining on an ongoing basis a rental database which requires tenants (possibly through their solicitors) to submit details of their lease agreements and rent reviews to LPS. This would provide an up to date evidence base on which to base revaluations.

15. The Minister's recent announcement of 'Reval2023' following on from the previous 2020 revaluation exercise is therefore welcome.

Industrial derating (IDR)

16. Industrial de-rating was introduced in 1929 to protect UK industry but was abolished in England and Wales in 1963 and phased out in Scotland by 1995. In the early 2000's Direct Rule Ministers made the decision to start to phase out IDR and a review was undertaken by the Economic Research Institute for Northern Ireland (ERINI). This concluded that there were risks in fully phasing out de-rating but that moving to a 50% relief would pose a lower risk to the sector, however they recognised that some businesses would struggle if the relief was reduced suddenly.

17. Previous analysis also noted that the introduction of a property tax relief for manufacturing could not have been introduced at that time because of EU state aid rules. Therefore, there would have been challenges in re-introducing the relief if its removal had caused significant issues for local manufacturers. Following the UK's departure from the EU, this may now be less of an issue, but it would need to be clarified if the NI Protocol continues to tie NI to the EU's state aid rules.

18. Whilst manufacturing remains an important sector for the NI economy, employing approx. 95k people and generating over £11bn in external sales (i.e. sales outside NI), it is smaller in relative terms than the 1920's when the relief was first introduced. The economy is much more service orientated and economic development strategies are increasingly focusing on attracting high value-added professional services and ICT businesses to NI. Therefore, the current rating reliefs raise the question of the types of businesses Government are seeking to incentivise to locate in NI.

19. The manufacturing sector have argued strongly for the retention of IDR and have often indicated that due to the size of premises required, their rates bills are higher. Also given higher energy costs and NI's geographic location on the periphery of Europe resulting in higher transport costs for both inputs and outputs, they are placed at a competitive disadvantage in international markets, therefore support in the form of IDR is important in creating a level playing field.

20. Furthermore, given the capital-intensive nature of the manufacturing sector, investment decisions are long term in nature and that requires long term certainty for local and international investors. These points should also be considered seriously.

21. On balance, **there is merit in reconsidering IDR policy** and conducting research to understand the impact of a reduction in the level of relief. A useful starting point would be a financial analysis of rates as a proportion of turnover or profit paid by manufacturers compared to other sectors.

22. Importantly, if (stress '*if*'!) any change was to be made, it would need to be introduced gradually over time.

Vacant Property Relief

23. Vacant property relief provides 100% exemption from business rates for the first three months of the vacant period, after which 50% relief is applied. This cost is shared between the Executive and District Councils, but the COVID rate supports funded by the Executive has resulted in eligible vacant properties paying no rates for 24 months.

24. The argument for retaining the relief on vacant commercial properties stems from the inability of the property owner to pay the rates bill in the absence of rental income and/ or it reduces the capital available to the landlord to invest and upgrade their properties. Conversely, abolishing vacant reliefs put a maximum incentive on the landlord to let the property rather than hold speculatively and to stimulate best use incentivising refurbishment, redevelopment or change of use.

25. This links into a broader discussion on the future of the High Street. Given current trends, some accelerated by the COVID-19 pandemic, the proportion of the overall High Street footprint given over to retail is likely to continue to fall as consumers increasingly make purchases online. The proportion of commercial space allocated to offices, hospitality and arts/ entertainment is likely to grow in line with the economy more

generally. This leaves residential space as one area with the potential for a significant increase in development. For historic reasons, urban centres have tended to have low resident populations in Northern Ireland, but turning this around would increase footfall, sustaining retail and hospitality businesses and creating an 18 hour economy rather than the 12 hour economy in most urban centres.

26. It is important that any reliefs incentivise re-occupancy or redevelopment through investment and/ or change of use.

27. Separately, any vacant rates policy must be cognisant of economic circumstances at that time. In periods of economic downturn, the rationale for vacant property relief is much stronger than when the economy is growing robustly. This would point to a fluid approach to vacant rates that varies over the economic cycle.

Ability to pay

28. There have been proposals put forward about moving away from a tax based on property to a tax based on ability to pay, which in turn suggests a turnover or profits-based tax. On one level this may be fair, but it is difficult to see this working in practice:

    - The level of rent is also a reasonable proxy for ability to pay, assuming the NAVs are reasonably current;
    - The same rates bill for the same (or similar) building is also fair;
    - A local tax on profits would duplicate an existing national tax and could potentially complicate the rates system.
    - Corporation tax revenues are quite volatile and the issue of profit shifting to avoid tax must be addressed.

29. Although not on a significant scale, there are an increasing number of examples of turnover-based rental agreements for High Street retail properties, which in time could lead to a debate on a turnover based rates system.

Taxing ownership rather than occupation

30. Taxing ownership of properties rather than occupation has both advantages and disadvantages. The **advantages** are discussed first:

    - Likely to reduce bad debt levels as the unpaid rates could be recovered as a charge on the property;
    - Encourages best use of the property and incentivises development;
    - Could take a significant number of small businesses out of the rating system (although they would be charged through their landlord);
    - Resolves the vacant rates issue.

31. However, there are also significant **disadvantages**:

- Land and buildings are often subject to several ownership interests and therefore identifying individual liabilities and in turn collection could be costly. This in turn would create a more uncertain tax base;

- Would most likely have to include a change to a capital value assessment rather than rental value and as indicated below, there is more limited evidence of capital values compared to rental values.

- There is significantly more experience and legal basis for tax based on occupation than ownership. Therefore, the current approach is well established and well understood by all stakeholders.

32. Overall, the issues resolved by moving to taxing ownership are not sufficient to justify the scale of the potential challenges which would likely be encountered.

Switching to capital value from rental value

33. Capital values tend to be more volatile than rental values, therefore if the rates liability calculation was to move to capital values then more frequent revaluations would be necessary. Furthermore the evidence base for determining capital values is limited relative to rental values, because of the relatively small number of transactions compared to rental agreements.

34. Colleagues in Ulster University have indicated that a switch to a capital value basis for non-domestic rates would likely reduce the burden on small businesses and increase the burden on prime commercial real estate and out of town shopping centres.

A Land Value Tax

35. A land value tax proposal is typically considered every 10 to 15 years before being discounted. Economic theory presents a strong rationale, on the basis of 'highest and best use' a land value tax would encourage the most productive use of land, in addition to raising tax revenues, but without the negative impact on output associated with some other forms of taxation such as on income, capital or consumption.

36. However, in practice, the case for a land value tax is weak given the practical challenges with its implementation. In particular, administering the tax and establishing an up to date and robust ownership database could prove costly and resource intensive relative to the revenue generated. Furthermore, it is not clear it would achieve the objective of encouraging investment for several reasons:

- A wide range of other factors also determines the timing of development activity such as availability of finance, demand for the residential or commercial development and planning approvals;

- It may be considered unreasonable to pay rates on land while the developer waits for planning permission. However, if relief is given on the planning applications, it could create a basis for avoidance measures as landowners could submit overly ambitious planning applications, putting further pressure on the planning system.

- The measure could have the unintended consequence of delaying investment as potential investment funds may need to be reallocated to pay the tax liability or developers may be discouraged from investing in areas to avoid the potential of incurring a tax liability.

37. Overall, there is a lack of evidence available to support a change as radical as implementing a land value tax.

Devolving relief powers to individual councils

38. The rates bill is made up of two components: the regional rate to fund NI-wide services; and the district rate to fund individual council-wide services. Consideration could be given to granting councils the power to offer reliefs within their council area to encourage economic development activity. This raises questions around who would administer these reliefs (and who would meet the cost of administration). In addition, in the interests of fairness any devolved relief should only relate to the district rate component, and the cost of any relief (in the form of lower revenue) should be met in full by the council offering the relief.

Other suggestions to reform rates

39. **Incentivising investment** – rather than offer relief to specific groups or sectors indefinitely, offer time limited incentives to those who make a significant investment in their business premises (new build or significant upgrade) – businesses are currently penalised for investment. Previous suggestions to incentivise investment have included offering relief to businesses in the first one or two years of their establishment. This suggestion may have merit but could potentially be used as an avoidance technique and therefore practical implementation could be an issue.

40. **Broadening the tax base** – this is potentially linked to the issue of reliefs, but reducing the number and scale of reliefs for some would have the impact of reducing the burden on others including many businesses and sectors we are trying to incentivise to invest in NI.

41. **A new on-line sales tax** – there is a strong rationale for this type of tax because ‘bricks and mortar’ retailers who are the foundation of the High Street face relatively high rates bills compared to on-line retailers (on a per square foot basis) in their out of town distribution centres. A proposal was announced by the Chancellor of the Exchequer in his March 2021 to seek international cooperation for an online tax and as such this type of policy could be supported by the NI Executive, but would fall outside its remit to implement. There is also an argument that traditional ‘bricks and mortar’ retailers

should be supported to develop their on-line platforms rather than taxing (and disincentivising) this activity.

42. **Agricultural land and buildings** – the relief given to agricultural land and buildings has long been a source of debate and change would be strongly resisted by the industry, but the economic rationale for 100% relief relative to other sectors is less clear. The cost of this relief is unknown but could be substantial.

4. Summary

Supporting COVID recovery

Non-domestic rates relief was critical during lockdown

1. The UUEPC consulted with a range of businesses and representative bodies whilst conducting research on the targeting of relief during the pandemic and found that the non-domestic rates relief was a critical component of the overall support packages put in place during lockdown. **Many businesses indicated that they would simply have ceased trading if rates relief had not been granted**.

Reducing the burden as part of a survival and recovery strategy

2. Rates is, first and foremost, a tax for raising revenue rather than an economic development tool and therefore, the most effective short-term support is to continue to maintain a reduced burden at least until restrictions are lifted. However, relief should be targeted, in some instances beyond the period in which restrictions are in place, but only for as long as is required and the removal of the relief may need to be tapered.

3. Importantly, as a policy measure rates relief is primarily a survival tool, therefore other policy measures are required to encourage economic recovery.

Fundamental Reform

4. The current non-domestic rating system in NI has many critics and there has been frequent calls for fundamental reform to the rating system. However, **it is important that calls for fundamental reform are not confused with calls from one interest group to reduce the tax burden for their constituency and increase cost for another**. A review of research has led to the following conclusions.

A property tax should be retained

5. In an era where governments will come under increasing pressure to reduce deficits and with limited evidence of a more effective alternative, moving away from this long-established form of taxation would not be recommended. It is therefore concluded that some form of property tax should be retained.

Incentivising investment

6. Businesses are currently penalised for investment, so rather than offer relief to specific groups or sectors indefinitely, offer time limited incentives to those who make a significant investment in their business premises (either new build or significant upgrade).

A review of all reliefs should be undertaken

7. Non-commercial rates reliefs cost £225m in 2020/21, equivalent to 26% of the total non-domestic rates revenue raised (this excludes agricultural land and buildings which has not been valued). The need for reliefs suggests a charge that is too high for some sectors/ groups, which in turn puts a greater burden on other rate-payers.

8. There may be a strong rationale for the existence of all individual reliefs, but it is only by considering the reliefs in their totality against the Executive's overall policy intentions, that a reasonable assessment could be made on the benefit of each individual relief. A holistic review of reliefs should therefore be considered.

A comment on Industrial derating (IDR)

9. There remains arguments for and against the abolition of IDR. Industrial de-rating was abolished in England and Wales in 1963 and phased out in Scotland by 1995. In the early 2000's Direct Rule Ministers made the decision to start to phase out IDR in NI but this was not taken forward.

10. Whilst manufacturing remains an important sector for the NI economy, it is much smaller in relative terms than the 1920's when the relief was first introduced and economic development strategies are increasingly focusing on attracting high value-added professional services and ICT businesses to NI. Therefore, the current rating reliefs raise the question of the types of businesses Government are seeking to incentivise to locate in NI and not always consistent with economic strategies.

11. In support of the relief, the size of industrial premises results in rates bills being higher, NI has higher energy costs and its geographic location results in higher transport costs for both inputs and outputs, therefore IDR is important in creating a level playing field. Furthermore, a stable taxation policy is important to provide long term certainty for local and international investors.

A comment on Vacant Property Relief

12. The argument for retaining relief on vacant commercial properties stems from the inability of the property owner to pay the rates bill in the absence of rental income and/ or it reduces the capital available to the landlord to invest and upgrade their properties. Conversely, abolishing vacant reliefs put a maximum incentive on the landlord to let the property rather than hold speculatively and to stimulate best use incentivising refurbishment, redevelopment or change of use.

13. Given the challenges facing the High Street, it is important that any reliefs incentivise investment and/ or change of use rather than allowing a property to remain vacant. Furthermore, in periods of economic downturn, the rationale for vacant property relief is much stronger than when the economy is growing robustly.

A comment on agricultural land and buildings

14. The economic rationale for offering 100% relief on agricultural land and buildings and not to other sectors is not clear. The cost of this relief is unknown but could be substantial.

Shift the burden from non-domestic to domestic ratepayers

15. The total non-domestic rates poundages have a much broader range in NI and although the lower boundary is now similar, the upper boundary is significantly greater than other parts of the UK. In contrast domestic rates is significantly lower in NI, which becomes even more stark with the inclusion of water charges.

16. As a result, there is scope to shift some of the burden from non-domestic to domestic ratepayers. Given the link has now been broken between domestic and non-domestic rates, councils have been given the flexibility to set domestic and non-domestic rates independently and they can choose to set the domestic rate at a higher level. In addition, the Executive could put a cap on the non-domestic district rate and over time the burden would shift.

Regular and frequent revaluations

17. Regular and frequent revaluations increase fairness as the tax liability is based on the current (rather than a dated) rental value of the property; one group are not benefitting at the expense of another; and it minimises the potential for significant changes to individual rates bills. The consensus view from previous consultations is that revaluations should be undertaken every 3 years.

18. The Minister's recent announcement of 'Reval 2023', following on from the last Revaluation exercise in 2020 is therefore welcome.

Devolving relief powers to individual councils

19. Consideration should be given to granting councils the power to offer reliefs within their council area to encourage economic development activity. This raises questions over who would administer these reliefs (and meet the cost of administration). In addition, in the interests of fairness any devolved relief should only relate to the district rate component, and the cost of any relief (in the form of lower revenue) should be met in full by the council offering the relief.

Broadening the tax base

20. Broadening the tax base through either making more people/ businesses eligible for rates (typically reducing reliefs) and/ or introducing new taxes such as an on-line sales tax. Introducing new taxes would currently fall outside the scope of devolved powers, but with the establishment of the new Independent Fiscal Commission, this situation could change.

There is insufficient evidence to take forward a range of other proposals

21. Other proposals such as: moving to a tax based on **ability to pay; taxing ownership rather than occupation; switching to capital value rather than rental value; and introducing a Land Value Tax** were considered, but there is insufficient evidence that the benefits of any change would outweigh the costs.