CBI

FROM SLABS TO SLICES

The path to business rates reform

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Foreword CBI

Business rates are one of the biggest challenges affecting competitiveness for firms of every size and sector operating in the UK. It is an issue our members raise with us again and again, and with good cause: at every turn they find a system that is over-complex and unfair, cumbersome yet unpredictable – where one small change can lead to thousands in unplanned costs.

This matters – not just for businesses but for the economy and future of the UK. The notorious inequity of the system, combined with the sheer scale of business property taxes (one of the highest rates in the OECD) act as a blocker to investment and a chain on our competitiveness as a country.

Right now, we have a system where huge cliff-edge increases discourage businesses from expanding, where rates calculations deter investment in renovating and improving buildings – even if that could boost energy efficiency. And where often outdated, inaccurate revaluations can throw up huge, unforeseen costs. That pressure doesn't fall evenly either: some sectors suffer particular hardship, and when businesses in those areas look for relief to get through, they have to navigate a maze of no less than 26 different schemes.

This patchwork of reliefs is what happens when you have a system that just wasn't designed for an economy like ours today. Instead of a long-term, systematic solution, they represent a short-term and costly sticking plaster to support the most impacted sectors.

No wonder firms across the UK are concerned. At a time when it's more important than ever for business to work with government to invest and spark the growth this country so badly needs, the parlous state of our rates system means business is coming to this with one hand tied behind its back.

Governments and think tanks have tried to tackle this before, but none have got to the root of the problem. Now, with a new government determined to kickstart growth, get business investing and reform the rates system, we have a golden opportunity to get this right. And, representing tens of thousands of businesses across all industries, the CBI is perfectly placed to come up with the concrete, cross-economy policies to do it. And, representing tens of thousands of businesses across all industries, the CBI is perfectly placed to come up with the long-term, cross-economy solutions to do it.

That said, we know reform takes time, and it's clear that we need a bridge between the current system and any long-term systematic changes. That could mean short-term support for the most adversely affected sectors, which could be delivered, along with a long-term plan, at the coming Autumn Budget.

The following report is the culmination of the work and input of dozens of our brilliant members, from some of the sectors most affected by the current rates system, from retail and hospitality, to manufacturing, airports and logistics. Thanks in particular must go to James Burchell, the Chair of our Working Group, for his hard work throughout.

Working with our expert policy teams he and our other members in the project have produced a comprehensive assessment of the challenges and a set of clear, targeted recommendations to deliver the simple, transparent, competitive and fair rates system we need. And, in the Budget and beyond, the CBI and our members stand ready to work with government to make that a reality.

Rain Newton-Smith

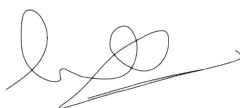
CEO, CBI

Foreword Tellon Capital

I have been in commercial real estate for many years, and watched closely what's been happening to our high streets and town centres: and there's no doubt rising business rates multipliers played a big part in the damage.

We need urgent, fundamental reform to reverse that, and I was honoured the CBI asked me to chair the committee to recommend how government can get this right. Over the last few months, we met with numerous occupiers from many different sectors to come up with recommendations for a progressive, equitable system that incentivises success in our businesses and the regeneration of our town centres.

A modern economy needs modern solutions, flexible enough to reflect the changing world we live in. So, from modernising the revaluations process to moving to an agile, progressive banding system, that's what our recommendations aim to do. I am convinced that these can help drive forward the growth story for businesses and the UK.



James Burchell

Co-Founder and Partner, Tellon Capital

Executive Summary

The new government has listened to businesses in promising reform of a system that is **complex**, **burdensome**, **unpredictable** and **inequitable**. In its Labour Party Manifesto 2024, the new government committed to replacing the business rate system.[1] We launched our 2024 Business Rates Reform Project well before this, building on our previous calls over many years for urgent reform. We took advantage of the CBI's unique position representing 170,000 businesses of all sizes and sectors. This reach ensured that we were able to bring together those most affected by business rates to deliver cross-economy policy solutions for effective reform.

"The current business rates system disincentivises investment, creates uncertainty and places an undue burden on our high streets. In England, Labour will replace the business rates system, so we can raise the same revenue but in a fairer way. [The new system will] better incentivise investment, tackle empty properties and support entrepreneurship."

This paper's recommendations for business rates reform are underpinned by principles agreed by our members: **certainty**, **transparency**, **simplicity**, **competitiveness**, and **fairness**.

There are four chapters in this report, each of which recaps the problems caused by the existing system and then provides recommendations to address them. The recommendations are specific to business rates in England but will have applications for the devolved nations. Differing policy approaches by devolved nations are not explored in this report but they are occasionally highlighted – for example, Scotland's approach to increasing occupation of empty properties through their Fresh Start Relief[3] which is more generous than England's empty properties relief. Where this is the case, lessons learned should be shared. Greater alignment between all nations should ultimately be the aim to tackle an increasingly complex tax system.

Resetting the business rates system

Moving to a progressive tax system

The existing business rates system is an ‘all or nothing’ or ‘slab’ tax – meaning the relevant multiplier applies to all of the rateable value of a building once a rateable value threshold is reached. This creates a series of cliff edges in the system which discourage businesses from expanding to more or larger premises. Moreover, the existing system is not progressive as small businesses are penalised where they operate out of larger sites or have multiple properties.

We therefore recommend moving to a ‘slice’ system – one that is banded in a similar way to income tax – which would be more progressive. Applying it on a per site basis would remove the disincentive to expand to new sites and maintain simplicity for local authorities, who could calculate business rates for sites in their area only.

A zero band would also reduce the need for a separate small business rate relief and the associated administrative burden for businesses claiming it and local authorities monitoring it. Better targeted relief based on business performance would be more appropriate to support businesses struggling to pay.

The cost of shifting from a ‘slab’ to a ‘slice’ approach would depend on the thresholds and multiplier rates used. However, this requires careful consideration as achieving revenue neutrality under a ‘slice’ system risks increasing the tax burden for many businesses as either more businesses would be brought into scope with lower thresholds, or a higher multiplier would be applied, or both.

Addressing uncertainty within revaluation cycles

Revaluation cycles are causing significant business uncertainty. Revaluations only take effect once every 3 years, and it takes 2 years to compile a full list of valuations, so the tax base is always at least 2 years – and as much as 5 years – behind current economic conditions.

Furthermore, the government requirement to ensure revenue stability results in the multiplier increasing annually in line with inflation (CPI) within revaluation cycles which, as recent years have shown, can cause volatility.

Finally, to ensure revenue neutrality for government, when the revaluation takes place, both the tax base changes to reflect the new revaluation and the multiplier adjusts to a rate that ensures the same tax is raised. This can lead to huge variability at an individual business level, which results in much of the uncertainty and unfairness. Businesses want to see the revenue neutrality principle removed, given this does not apply to any other tax bases.

Annual revaluations would ensure greater business certainty and fairness as rateable values would be kept up to date, reflecting the impact of inflation such that multipliers could stay fixed. However, a realistic roadmap which phases in annual revaluations is required to reach this milestone and so we recommend the following:

1. Fix the multiplier immediately rather than increasing it annually in line with CPI until the 2026 revaluation.

2. Commit to reducing the Antecedent Valuation Date (AVD) gap to 12 months following the 2026 revaluation.

3. Move to annual revaluations in the 2029/30 financial year following the 2029 revaluation.

Valuation and working with the Valuation Office Agency (VOA)

Valuation methodologies

The VOA uses three main ways of working out rateable value which add complexity in the system and cost to administering that system. This is compounded by the VOA regularly updating its guidance on valuation.

These methods can also result in wildly different costs for otherwise similar buildings (for instance when a property is moved from one valuation method to another), adding to unfairness in the system. The complexity of these valuation methods goes some way to explain why valuation cycles are so long.

To address these issues, the VOA needs to be transparent in its valuations and where rates liabilities increase because of a change in valuation methodology, the ratepayer should be able to easily understand why. We recommend:

- The VOA publishes the justification for changes in valuation methodology and set out a clear and fair challenge and appeals process for businesses that face higher bills.
- Valuation data is available via a single digital system to all business rates payers, so they can understand and calculate their own liabilities where appropriate.

Duty to notify

From 2026, the businesses will be required to notify the VOA of changes that affect the assessment of their property for business rates each time circumstances change. This is called the ‘duty to notify’. The current timeframe to implement the duty is unrealistic given the data points required are numerous and complex to gather.

The government should therefore delay the introduction of duty to notify to 2028, affording businesses and their agents enough time to prepare themselves to comply with the data requirements and ensure its effective implementation.

Trust in the VOA

The relationship between the VOA and businesses is strained. Processes such as check, challenge, appeal (CCA) encounter delays and businesses feel that they are not provided with a professional customer experience.

To ensure greater transparency and accountability, government should introduce metrics to track VOA performance. They should be developed in consultation with businesses; performance against these should be published annually; and they should link back to the 2021 VOA charter.

Reliefs and exemptions

The vast number of overlapping reliefs in the English business rates system creates complexity, and the lack of transparency on how they work or how to apply for them adds to the difficulties faced by business in trying to navigate the system. Many of the reliefs are available at the discretion of a local authority so their value may differ from one business or area to another.

Other recommendations in this paper will diminish the need for certain reliefs and simplify the system. These include:

- Moving to a ‘slice’ tax system reducing the need for small business rate relief, rural rates relief, or second property relief.
- Moving to annual revaluations should remove the need for transitional relief and the supporting small business rates scheme.

Charitable rate relief

There are some examples where those receiving charitable rate relief are not clearly acting for a purely charitable purpose, or where their charitable status gives them an unfair economic advantage over others providing equivalent non-relieved services. However, there are clearly other social policy benefits in many of these cases as well. Where this is the case, the government should decide if relief should be more targeted or whether it is already compatible with government policy aims.

Inclusion of public buildings

Business rates also applies to buildings used by public services (e.g. NHS hospitals and government departments). Since the occupiers of these buildings are generally publicly funded, government usually funds their business rates bills which is expensive and makes it more difficult to understand how much money the system as a whole is generating. Associated administrative burdens add to the complexity and expense.

Government should be transparent and calculate the revenue it receives from business rates net of these costs. Where public service buildings without a commercial purpose are wholly owned by government they should also be excluded from business rates to simplify the system, and local authorities should be provided with equivalent levels of funding via another route.

Supporting investment

Investing in a business structure can increase its rateable value and subsequently a business's rates bill. This is a disincentive to invest. Although the government has introduced several measures to address this issue, better incentives are needed to support investment.

Improvement relief

Improvement relief exempts certain investment from business rates for a year and the occupier of the property has to be the same before and after the improvement works. The one-year exemption is not a long enough period to provide a strong signal to businesses to invest. For landlords, the relief is not appropriate as the best time to invest is when their units are vacant in-between tenants.

We therefore recommend removing the requirement to have the same occupier of a property before and after improvement works, and to extend the delay to uplifts from 1 year to 3 years.

Empty property relief

Empty property relief seeks to lessen the financial burden on property owners that are not generating revenue from their vacant properties but it is only available for three months despite it typically taking at least 12-18 months to find a new occupier (based on retail units reoccupation rates).[4]

The decision to restrict the relief by extending the reset period in the Spring Budget 2024 has made it more difficult to access. Businesses need a corresponding positive investment incentive.

HM Treasury should therefore conduct an impact assessment on extending empty property relief from 3 months to 6 months followed by a 50% discount thereafter. This should include potential benefits such as greater tax revenue due to increased economic activity from higher reoccupation rates and less mitigation (i.e. use of various routes and arrangements to reduce business' rates liabilities legally). The dynamic effect of increased investment by property owners due to lower rates bills should also be considered.

Green investment

An exemption is available for green plant and machinery such as solar panels and wind turbines. However, it should be extended to include carbon capture, utilisation and storage (CCUS) and hydrogen related infrastructure (both technologies were identified as key green growth prizes by the CBI's Going for Growth Report).[5]

Capital allowances do little to reward green investment and this is particularly the case for structures and buildings which receive a flat allowance of 3% per year. Better incentives would help to make heat and buildings more energy efficient.

Heat and buildings offer a major green growth opportunity and ambitious policy is required to ensure that 3% of UK buildings are retrofitted every year to achieve our 2050 net zero carbon emissions target.[6]

Government should therefore introduce a targeted green super-deduction at a rate of at least 120% for businesses that invest in energy-saving retrofitting of commercial properties (including heat pumps), ensuring it covers leased and rented assets, and is available to unincorporated businesses.

Conclusion

The new government has prioritised business rates reform and the recommendations in this report support this agenda.

The CBI and its members stand ready to engage with the government as they develop their business rates policy, starting with the forthcoming Budget in the autumn.

Exhibit 1: Roadmap of recommendations to a better system

	Consult	Announce	Implement
Autumn Budget 2024	Move to a progressive 'slice' based tax system (including review of need for small business rate relief, rural rates relief and second property relief under new system). Review of charitable rate relief and inclusion of publicly owned buildings used for public services. Introduction of metrics to track VOA performance.	Fix the multiplier at current levels until the 2026 revaluation. VOA commitment to publish justification for changes in valuation methodology and establish clear and fair challenge and appeal process. Delay the duty to notify to 2028/29. Provide a bridge for businesses facing a cliff-edge in support, such as Retail, Hospitality and Leisure. Reform improvement relief. Impact assessment on empty property relief.	Green super-deduction capital allowance at a rate of at least 120% on investment in retrofitting of business properties and heat pumps Include CCUS, and hydrogen infrastructure in the green plant & machinery exemption.
2025/26 financial year	Annual revaluations	Move to a progressive 'slice' based tax system. Valuation data should be made available via a single digital system. Introduction of metrics to track VOA performance.	Fix the multiplier at current levels until the 2026 revaluation. VOA commitment to publish justification for changes in valuation methodology and establish a clear and fair challenge and appeal process. Provide a bridge for businesses facing a cliff-

	Consult	Announce	Implement
			edge in support, such as Retail, Hospitality and Leisure. Reform improvement relief Impact assessment on empty property relief. Publish a fully accurate calculation of the net revenue derived from business rates, taking into consideration in-scope public buildings, and adjusting revenue expectations accordingly.
2026/27 financial year (revaluation year)		Reduce Antecedent Valuation Date gap to 12 months.	Move to a progressive 'slice' based tax system with appropriate bands and multipliers for the new 2026 ratings list. Remove small business rate relief and replace with a more targeted small business relief based on business performance. Valuation data should be made available via a single digital system Introduction of metrics to track VOA performance.
2027/28 financial year		Annual revaluations.	Reduce Antecedent Valuation Date gap to 12 months.
2028/29 financial year			Introduce duty to notify.
2029/30 financial year (revaluation year)			Annual revaluations (and removal of transitional and supporting small business relief).

Introduction

The limitations of the existing business rates system are well documented. Reform is needed as evidenced by actors across the policy space continuing to grapple with possible solutions. The previous government completed their fundamental review of the business rates system in 2021,[7] political parties made commitments to reform or replace business rates in their manifestos ahead of the 2024 general election and prominent think tanks such as the Resolution Foundation continue to call for the phasing out of business rates altogether in favour of a more economically efficient form of taxation such as a land value tax.[8]

For many years, the CBI has called on the government to urgently reform the business rates system to put business rates back on a sustainable path to supporting investment, economic growth and prosperity. However, since publishing our joint report with Avison Young in 2020 making the case for business rates reform,[9] **businesses continue to tell us that business rates are complex, burdensome, unpredictable and inequitable.**

The CBI therefore launched our 2024 Business Rates Reform Project, bringing together businesses from sectors most affected by business rates and potentially affected by alternative property taxes to deliver policy solutions for effective reform. They represented retail, food & drink, logistics, hospitality, airports, manufacturing, professional advisers, real estate, technology, energy, healthcare and farming. We hosted a series of roundtables and gathered detailed member input from across sectors and regions to inform this report, which sets a clear path forward for the next government.

Our members told us that a wholesale replacement of the system with something new would be too disruptive and that they wanted **to focus the scope of this project on reforming the existing property-based system**.

Alternatives were considered as part of the project, and we discussed the implications of introducing and/or raising other taxes, such as a General Sales Tax (GST), Value Added Tax (VAT) or a Land Value Tax (LVT). An online sales tax was not considered in this project as until recently (30 June 2024), the UK has been signed up to an international agreement not to apply new digital sales or equivalent taxes while discussions on Pillar One of the OECD's Base Erosion and Profit Shifting project continue.[10] Moreover, the Labour Party has committed to any change remaining within business property taxation (rather than looking outside of this scope to other taxes).[11]

Our members told us that:

- They would not want to shift the whole burden of business rates onto a different tax.
- Raising VAT (which the new government has committed not to do)[12] or introducing a GST would almost certainly lead to increased prices for consumers.
- Designing and implementing an LVT would be difficult, introduce complexity, and without a clear idea of how much tax they would be paying under this new system, would be a difficult option to support. It could also have a long timeline for implementation, which would not help businesses struggling now.

Our members also agreed that reform needs to be underpinned by the following principles: certainty, transparency, simplicity, competitiveness, and fairness. Our statement of principles is set out overleaf.

Building on these principles, the chapters in this report briefly recap the problems that business rates are causing our members and then outline solutions and recommendations for improving the business rates system. The recommendations are specific to business rates in England but will have applications for the devolved nations, and greater alignment between all nations should be the priority to tackle an increasingly complex tax system.

Chapter 1 sets out how reforming the business rates system to make it progressive, and establishing a pathway to annual revaluations starting with fixed multipliers would make the level of tax paid fairer for businesses, more certain, competitive and conducive to investment and expansion.

Chapter 2 explores how valuations can throw the system out of balance, forcing certain sectors to bear an unfair business rates burden, meanwhile putting significant strain on the VOA which makes their task more difficult. This has a negative impact on business' experience with the business rates system. Existing processes such as check, challenge, appeal (CCA) are not working as well as they should and the upcoming duty to notify is generating concern that administrative burdens will become unmanageable for businesses. A rethink of the VOA relationship with business is needed.

Chapter 3 calls for simplification by streamlining the reliefs and exemptions in place, removing superfluous measures and therefore freeing up funding to enable beneficial reform to the business rates system.

Chapter 4 explains how better incentives for investment in the business rates system are required, while related policies such as capital allowances and how energy efficiency is measured in property and the need to reform the energy performance certificate (EPC) also have a role to play.

The final chapter concludes, acknowledging the new government's commitment to business rates reform and emphasising the need for businesses to be consulted.

Statement of principles

1. **Certainty** – businesses need certainty to plan and invest. Currently, linking annual increases to the multiplier to inflation, infrequent revaluations and the temporary nature of investment incentives such as improvement relief provide too much volatility.

2. **Transparency** – it is particularly important for businesses to understand how they are being taxed. Valuation approaches which are easy to follow are needed alongside an appeals process where businesses can effectively challenge their business rates calculation where it is appropriate to do so.

3. **Simplicity** – as stated in the CBI's Business Tax Roadmap,[13] simplicity should be a guiding principle throughout the tax system to minimise the compliance burden for both businesses and tax authorities. This is at odds with the current approach: while the UK Government website lists 14 types of Business rates relief available in England (as business rates policy is devolved),[14] businesses often find there are other reliefs or exemptions, or complexities to the named reliefs that add to this list.

4. **Competitiveness** – a more competitive business property tax system compared to other countries will make the UK a more desirable place for business investment. At present, the UK consistently has one of the highest property tax levels in the OECD, with a share of GDP figure more than three times that of Germany in 2022.[15]

5. **Fairness** – a fair property tax system must be underpinned by a tax base that accurately reflects economic conditions. Revaluations currently take effect every three years using data that takes two years to compile, so even after a revaluation, the new values are out of date.

Resetting the business rates system

The problem

Multiplying multipliers and cliff edges

The English business rates system has officially got two multipliers – the small business rate of 49.9p, which currently applies to buildings with a rateable value from £15,000 to £50,999, and the standard rate of 54.6p, which applies to buildings with a rateable value from £51,000 upwards. There is also effectively a zero rate, which applies to buildings with a rateable value below £12,000 which qualify for small business relief – with this relief tapering off for those with rateable values between £12,000 and £15,000. This is illustrated below:

Exhibit 2: Business rates in England

Rateable value	Multiplier
£nil-£12,000	Exempt
£12,001-£15,000	Small business rate relief tapers down from 49.9p to nil
£15,001-£50,999	49.9p
£51,000+	54.6p

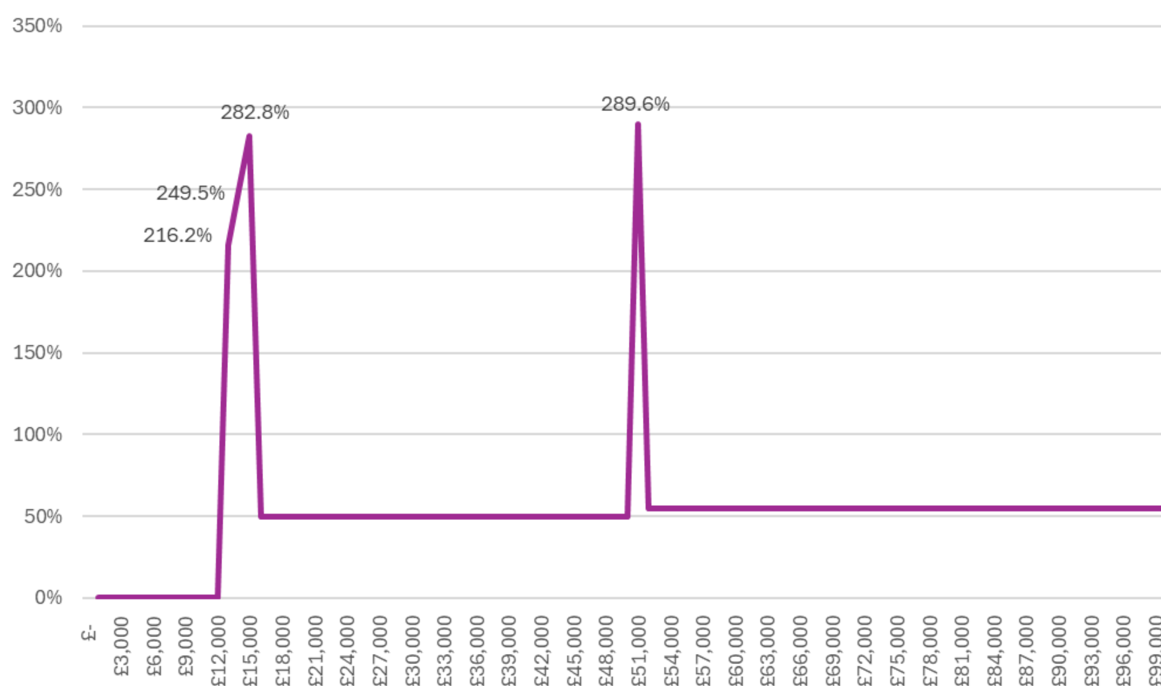
The way these multipliers and reliefs interact create a number of issues. First, business rates are mostly an 'all or nothing' or 'slab' tax – meaning the relevant multiplier applies to all of the rateable value of a building once a rateable value threshold is reached. This creates a series of cliff edges in the system, which discourage businesses from expanding to more or larger premises. For example, if a business occupies a building with a rateable value of £50,999, its business rates bill will be £25,448. If it upgrades to a building with a rateable value of £51,000, despite the rent increasing by only £1, its business rates bill would rise to £27,846 – an increase of £2,398. **Exhibit 3** below demonstrates the impact on a business' rates bill of moving from one band to the next in the current system.

Exhibit 3: impact of 'all or nothing' / 'slab' tax approach

	Property 1	Property 2	Difference
Rateable value	£50,999	£51,000	£1
Rates bill	£25,449	£27,846	£2,397

The only point at which the system currently tries to smooth these cliff edges is between rateable values of £12,001 and £15,000, where small business rate relief is tapered off at a rate of 1% per £30 rateable value increases. However, this tapering does not solve the problem – instead, it leads to marginal tax rates for every £1,000 of rateable value added of as much as 283%, which is a significant disincentive to business expansion. There is a similar – indeed larger – cliff edge when businesses move from the small to standard business rates multiplier, with a marginal rate of 290%. See **Exhibit 4** for more details.

Exhibit 4: Marginal tax rates for each £1,000 increase in rateable value (England), 2024-25



While many businesses occupying a single premises with a rateable value up to £12,000 benefit from small business rate relief, the way this relief works for multiple properties can also create inconsistencies and further cliff-edges. Small business rate relief is only available automatically where you occupy one premises – if you move to another, after the first year, small business rate relief will only be available where any further premises have a rateable value below £2,900 and the total rateable value of all premises is below £20,000. This means a business occupying one site with a rateable value of £12,000 will pay no business rates, but a business occupying three sites with rateable values of £6,200, £2,899 and £2,901 (so the same total rateable value of £12,000 across all sites) could end up paying the small business rates multiplier on all of its sites, which would cost £5,988. **Exhibit 5** below illustrates this.

Exhibit 5: small business rate relief supports single rather than multiple sites

	Business A (one site)	Business B (three sites)			Difference
	Site 1	Site 1	Site 2	Site 3	
Rateable value per site	£12,000	£6,200	£2,899	£2,901	-
Total rateable value per business	£12,000	£12,000			£nil
Total rates bill per business	£nil	£5,988			£5,988

It is also clear that both the 'small business' rates relief and the 'small business' multiplier are misnamed because there is not necessarily a link between the size of a business, its profitability or turnover, and the size of the property it occupies. For many small businesses in retail, hospitality, or sectors like social care and childcare, customer need and - in some cases - regulatory requirements drive the use of larger physical spaces regardless of their turnover or profit margins. By comparison, many office-based service firms have been able to downsize their office space in recent years as more of their employees work from home, even though their profits may be steady or even rising. Given small business rate relief currently costs £2bn,[16] it is important to ensure it is providing value for money, and targeted appropriately to the businesses that really need it.

A final inconsistency is that businesses operating a franchise model benefit more from the existing system compared to businesses that use a model where they own and operate all their locations directly. In a franchise model, each hereditament is assessed independently which, as illustrated in Exhibit 5, makes it easier to qualify for reliefs (including small business rate relief and retail, hospitality and leisure (RHL) relief) which results in a lower rates bill. Businesses that own each of their sites directly on the other hand are unable to treat each hereditament as a separate site. Claiming reliefs is therefore more difficult and limits like the £110,000 relief limit for RHL relief are shared across their estate. Consequently, they are likely to pay a higher rates bill.

The solution

A progressive tax system

Business rates could be made a more progressive tax if, instead of multipliers that apply above a particular rateable value, it were banded in a similar way to income tax – moving from a 'slab' to a 'slice' system.

The bands should be applied on a per site basis which would have two benefits. First, it would remove the disincentive to expand to new sites. Second, it would mean individual local authorities could calculate business rates for sites in their area without having to take into account any other properties used by a particular business in other areas. This could be a significant simplification for businesses and local authorities alike. It would also go some way to reduce business rates burdens for retail and hospitality businesses, many of whom will occupy a number of smaller sites in high streets across the country, rather than being able to concentrate their operations in one place as other sectors may do.

A zero percent band would reduce the need for a separate small business rate relief, while having multiple bands would ensure marginal rates increase progressively, removing the cliff edges and extreme marginal rates caused by the current system. For many businesses removing the need to apply to local authorities for small business rates and/or a tapered rate would reduce their administrative cost and burden significantly. They would not need to use external advisers to support them in applications or appeals, and as soon as they received their VOA rateable value confirmation, they would know they were out of the scope of the tax entirely.

An example of what a progressive tax system for business rates could look like is provided below in Exhibit 6, on a per site basis. The lower band suggested in this example is capped at £8,000 which is the median rateable value in England & Wales as per the 2023 list.[17] While the CBI did consider mirroring the existing threshold for small business rate relief, this did not seem necessary as in most regions of England more than half of hereditaments would already be exempted at this lower threshold, and the lower threshold also reduces the cost of the change while still allowing most businesses which benefit from small business rate relief currently to continue to do so. The tax rates used reflect existing rates, apart from the 25% rate, which is a mid-point between the 0% band and the current small business rates multiplier.

Exhibit 6: example of progressive business rates tax system

Taxable rateable value	Tax Rate
£nil-£8,000	0%
£8,001-£15,000	25%
£15,001-£50,999	49.9%
£51,000+	54.6%

Exhibit 7 below demonstrates how moving from the existing ‘slab’ approach to the proposed ‘slice’ approach decreases the rates bills of most businesses.

Exhibit 7: ‘slab’ vs ‘slice’ system

Rateable value	Tax under current system (‘slab’)	Tax under new system (‘slice)
£5,000	£nil	£nil
£10,000	£nil	£500
£13,500	£3,368	£1,375
£30,000	£14,970	£9,235
£60,000	£32,760	£24,628

Exhibit 6 above is an example purely for illustrative purposes. The bands and tax rates used would not result in a fiscally neutral outcome for government, and implementing a ‘slice’ system in this way could cost £4.1bn.[18] The cost overall could be higher than this estimate as hereditaments with a rateable value in the lowest band which currently pay business rates because they are owned by businesses with multiple sites would be taken out of the scope by this approach.

It would be possible to introduce a 'slice' system that was fiscally neutral for government either by reducing thresholds, or by increasing multiplier rates, or some combination of the two. However, in that case there could be many more businesses which lose out under the new system, either because they are brought into the scope of tax by a lower threshold than they currently face, or by having to pay a higher rate than their current multiplier.

Businesses are clear they want to challenge fiscal neutrality as a principle on which business rates is currently based. There are no other taxes where government revenue is guaranteed, while individual taxpayer liability varies to allow for this, and business rates operating in this way is the cause of much of the uncertainty and unfairness for individual taxpayers in the existing system. Burdens on those businesses in scope – and particularly those which cannot reduce their property costs or footprint – are increased regularly to account for any business that can take itself out of scope or reduce its burden as well as to match inflation, without any reflection of economic circumstances.

The CBI is therefore recommending that when the 'slice' system is introduced, government does not seek to do this in a fiscally neutral way. Instead, it recognises the potential benefits of a slice system to creating a fairer, simpler and more certain tax system, and implements it based on the bands suggested in Exhibit 6 and current multipliers, rather than shifting these.

A majority of members participating in our Business Rates Reform Project preferred this progressive approach to simply reducing existing multipliers and sticking with an 'all or nothing' tax.

Recommendation

Change the application of multipliers from an 'all or nothing' (or 'slab') tax to a banded 'slice' approach, removing cliff edges and making it easier for businesses occupying small premises to benefit from relief.

Having a tax based on individual sites would reverse the current relationship between business rates and multiple sites – for example, a business with two sites with rateable values of £7,500 each (so a total rateable value of £15,000) would pay no business rates in the above example whereas a business with one site worth £15,000 would pay £1,875.

That is why it is also important for government to consider the interaction between bands, tax rates and existing reliefs to transition to a better tax system. An integral part of this progressive tax system will be to provide a targeted and appropriate small business relief, based on ability to pay, to protect those businesses which may be occupying larger premises but are still struggling to pay.

There is already a hardship relief available at the discretion of local councils, which provides much more flexibility for businesses as there are no set limits on when it can apply[19]. This approach would be a better model for providing relief to small businesses where they are genuinely struggling.

Recommendation

Replace the current small business rate relief with a targeted relief based on business performance rather than value of premises, much like the more flexible hardship relief.

The problem

Uncertainty within revaluation cycles

Business rates are the only business tax where the liability can be out of kilter with the economic cycle, without the business being able to make any changes to it. This is caused by two features of the system: the infrequent updating of the tax base and the requirement to ensure revenue neutrality for government.

The tax base is determined by valuations of buildings by the VOA, which are now done every three years (down from 5 years previously). There is a 2-year time lag between the date from which the VOA draws to determine a valuation (known as the Antecedent Valuation Date) and the valuation being implemented. This means business rates bills are often out of line with actual property values already by the time a valuation is applied. This problem is then compounded by valuations largely remaining unchanged in the intervening years between valuation cycles regardless of what has happened to the property market in that time.

This problem has been exacerbated by the volatility of the property market in recent years, with many businesses stuck paying bills based on 2015 data until 2023, despite the impact of economic shocks including Brexit, the pandemic and the energy crisis causing significant shifts in property values.

This means the system as it currently stands does not allow the tax liability to move in line with the economic cycle (as is the case with other taxes), meaning it does not reflect a business's true ability to pay.

Within a revaluation cycle, the multiplier increases annually in line with inflation which exposes businesses to a high level of volatility. First, businesses are given very little time to prepare as the increase comes into effect at the beginning of each fiscal year (every April) and the inflation measure used is CPI for the twelve-month period to the previous September, which is not announced until October at the earliest. The businesses therefore generally have a maximum of six months to prepare for an increase.

Second, year-to-date inflation rates can vary hugely from one month to the next – adding to the lack of predictability and meaning businesses can be hit by a rate that is out of kilter with inflation at the point the increase comes into effect. For example, in April 2024, the multiplier increased by 6.7% (from 51.2p to 54.6p) which reflected CPI for the twelve months to September 2023 – but if the rate used had been CPI in October 2023 the increase would have been over 2 percentage points lower at 4.6%.

In some cases, this has led to policy volatility as well – as in 2022 when the government chose to freeze the multiplier rather than require businesses to pay an increase of as much as 10.1% to business rates multipliers from April 2023. This unpredictability makes budgeting difficult for both businesses and local and national government, and acts as a barrier to investment.

The solution

Fixing the multiplier until annual revaluations are achievable

Greater business certainty and fairness can be achieved by moving to annual revaluations. This would ensure that rateable values are kept up to date, reflecting economic conditions including the impact of inflation such that multipliers would not need to be increased annually.

CBI members acknowledge the capacity constraints at the VOA and the overhang of appeals from previous revaluations which mean immediately moving to annual revaluations would be extremely difficult, particularly with the current staffing numbers. We understand that in order to conduct a revaluation of each commercial property in England, the VOA needs to compile a significant amount of data and information, which means there are presently two years between the Antecedent Valuation Date (AVD) and the start of the new rating list. All these issues act as barriers to more frequent revaluations.

Government should therefore propose a phased approach towards more frequent valuations, starting immediately. We would recommend a path to achieve annual revaluations from April 2029, taking the following interim steps:

1. Fix the multiplier immediately rather than increasing it annually in line with CPI. CBI members considered other models which would have seen some increase in the multiplier in the years between revaluations, but preferred this option because fixing the multiplier would align business rates with most other taxes (which do not increase annually with inflation) and should provide the incentive needed in government to move to annual revaluations as quickly as possible.
2. Commit to reducing the AVD gap to 12 months following the 2026 revaluation which will ensure more up-to-date data is used for revaluations to better reflect economic conditions.
3. Move to annual revaluations in the 2029/30 financial year following the 2029 revaluation to ensure maximum business certainty.

Recommendation

Implement the above roadmap by:

1. Fixing the multipliers immediately at current levels until the 2026 revaluation.
2. Moving to a progressive ‘slice’ based tax system in the 2026/27 financial year with appropriate bands and multipliers for the new 2026 ratings list.
3. Committing to reducing the AVD gap to 12 months in 2026/27 financial year and implementing this in the 2027/28 financial year.
4. Implementing annual revaluations from April 2029 for the 2029/30 financial year.

Valuation and working with the VOA

The problem

Valuation methodologies

The VOA is responsible for valuing commercial property for the purposes of determining its 'rateable value' - one half of the equation, along with the multiplier, for calculating business rates in England and Wales.

The VOA uses three main ways of working out rateable value, depending on the type of property and the information available about the property:

- **Rental method:** The rental method is used to value properties like shops, factories and offices. It is used where there is a lot of information available about lease terms and rents paid.
- **Profits method (also known as the receipts and expenditure method):** The profits method is used to value properties like hotels, leisure centres and theme parks. It is used when there is not much information about rents paid. The rateable value is based on the rent a tenant would be willing to pay to achieve a certain amount of trade.
- **Contractor's basis:** The contractor's basis is used to value properties like schools and chemical plants. It is used for properties that are never rented out so there is no information about rents paid. The rateable value is based on the cost of constructing a like-for-like building.[20]

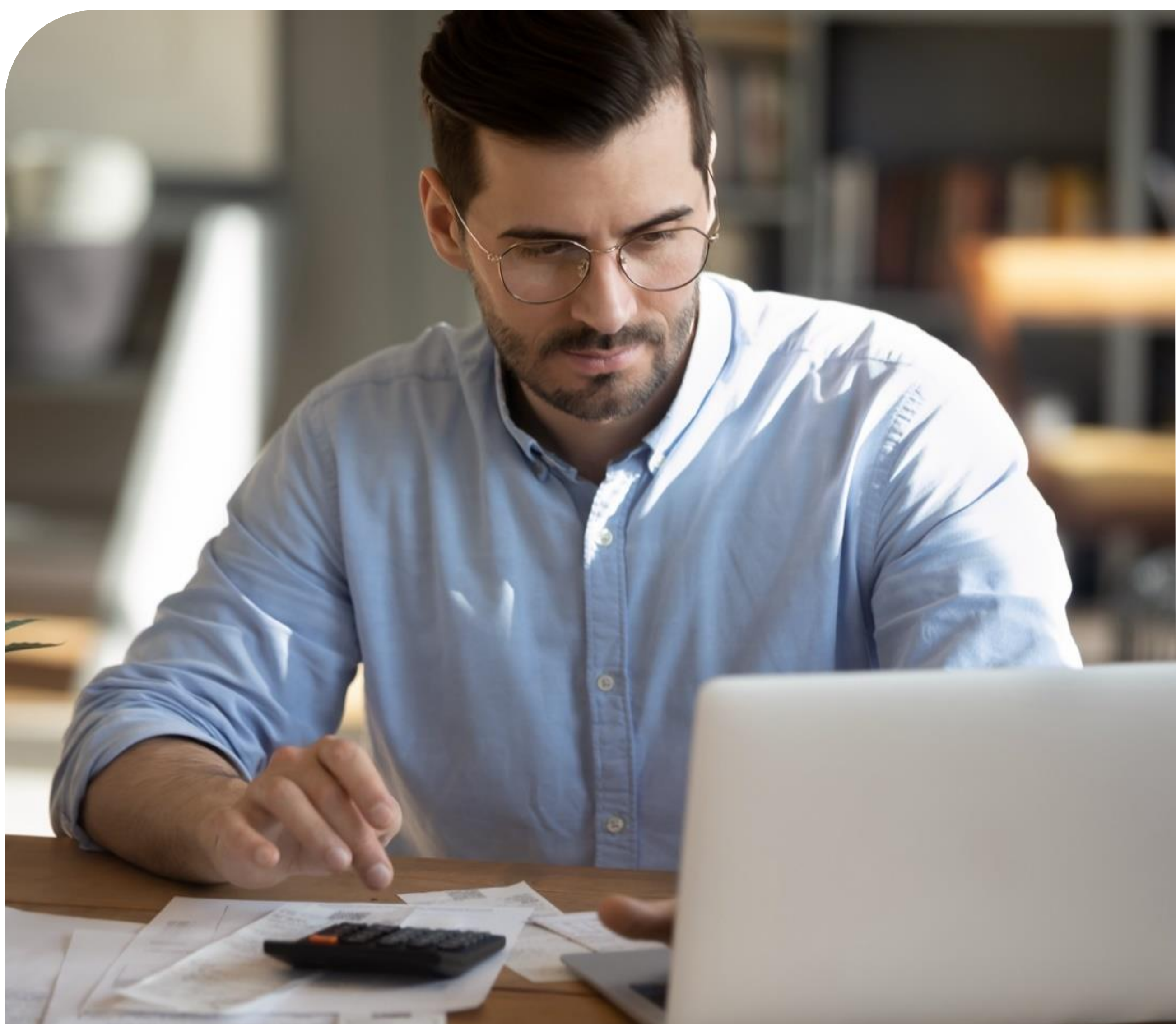
At first glance, this approach sounds reasonable but it is the source of a number of issues businesses have with the business rates system.

First, the mere fact that multiple valuation methods exist adds to complexity in the system and the cost of administering that system, both for the VOA and for the businesses. The VOA regularly updates its guidance on valuation and has also been known to refuse to disclose information used to calculate rateable values. This adds to uncertainty and businesses can never be sure that a particular calculation method will remain the same, whether it will be applied to them consistently across valuation cycles, or whether it is accurate in the first place.

Second, different calculation methods can result in wildly different costs for otherwise similar buildings, adding to unfairness in the system. This can be seen most starkly where a business that had been valued under one method is moved to another – as in the case of airports, which, when switched from the contractor's basis to the profits method, could see increases in their bills of as much as 50%.[21]

Part of the reason for these differences is because some valuation methods take into account performance – or predicted performance – of the business occupying the building, whereas others look only at the building costs themselves. The profits basis, in particular, can have the effect of penalising successful businesses, disincentivising them to drive up profit, and creating a barrier to entry for new businesses by assuming a level of profitability that is more difficult to achieve early in a business's life cycle. This effect is often only counteracted by introducing new reliefs to support sectors or groups of businesses particularly hard hit by a valuation methodology or changes to it. This further adds to complexity and lack of transparency in the system.

The complexity of these valuation methods goes some way to explain why valuation cycles are so long – currently three yearly, based on data from the previous year at best. This often leads to valuations that do not reflect current economic conditions, contributing to lack of transparency and unfairness in the system.



The solution

Greater transparency and fairness

Valuations should continue to be based on actual rental data where available, to ensure it follows economic conditions. Where actual rental data is not available, businesses accept that either the profits method or contractor's basis are necessary. However, there should not be as much variability of outcomes between these valuations as there is at present. Where the VOA decide to change the valuation methodology of a property type which causes significant increases in the value of that property, a clear justification for the change in method should be published and a clear and fair process should be made available for businesses impacted to challenge and appeal.

Efforts should still be made to reduce the complexity of valuations and the number of appeals expected as a result should free up VOA time and resource, allowing them to shorten revaluation cycles to one year.

There is already some progress being made that should make this easier: in 2021, the government committed to the digitalising business rates (**DBR**) programme, which would allow them to collect consistent data in one place on business performance and business rates liabilities.[22] However, it has not been made clear how this extra information will be used to inform VOA valuations and government should set this out as soon as possible. Modernisation and digitisation of the VOA and business rates system has to be a priority.

Recommendations

- Publish the justification for changes in valuation methodology, and set out a clear and fair challenge and appeals process for businesses that face higher bills.
- Valuation data should be made available via a single digital system to all business rates payers, so they can understand and calculate their own liabilities where appropriate.

The problem

Duty to notify

The government has announced a new duty to notify, due to be introduced in 2026, which will require ratepayers to notify the VOA when there are changes in occupation, changes to a lease/rent or changes to a property, to provide trade information used for valuation, and to confirm these details annually.[23] The purpose of introducing this new duty is to increase the quantity and quality of evidence used to derive valuations and businesses accept it is a necessary step for more frequent valuations.

However, the current timeframe to implement the duty to notify is unrealistic. Duty to notify is a major change to the system that will require all ratepayers for 2.1m assessments[24] to engage, provide annual returns and notify the VOA of changes when they happen (even those that do not currently pay business rates as they qualify for small business rate relief). Using the 805,000 assessments that are registered for CCA as a proxy for the level of engagement with the system,[25] the VOA has less than two years to ensure that the gap of 1.3m hereditaments become aware of and are able to comply with the new duty.

Furthermore, there is also an issue that many ratepayers simply do not know or understand what information they should disclose. In the past, the VOA was resourced to keep abreast of changes through continuous referencing via a significantly larger number of local offices than exist today. Constant budget cuts to the VOA have significantly damaged its ability to satisfy its statutory duty to compile and maintain rating lists.

Finally, for the most complex sites (i.e. those that are not valued using the rental method), members tell us that the proposed 60-day deadline within which ratepayers need to notify the VOA of changes[26] places an undue compliance burden on businesses impacted. For businesses to have a realistic chance to comply with the new duty (which in turn will make more frequent valuations possible), realistic deadlines need to be set.

Given the scale and complexity of the task to get businesses ready for the duty to notify, businesses feel that more time is required to adjust to these additional requirements.

The solution

Delay implementation

On the basis that 2026 comes too soon to effectively implement the new duty to notify, government should look to delay this. As highlighted above, the duty to notify is an important step to more frequent valuations. We have already recommended a target date of 2029 for the VOA to start annual revaluations. As duty to notify is seen as a necessary first step to enabling this, it should be postponed until the 2028/29 financial year. A transition period continuing until at least the end of the first annual revaluation cycle in 2029/30, during which no penalties are levied will ensure that both the VOA and businesses can get used to the new process with minimal additional administrative cost.

Recommendation

Delay the introduction of duty to notify to the 2028/29 financial year, affording businesses and their agents enough time to prepare themselves to comply with the data requirements and ensure its effective implementation.

The problem

Trust in the VOA

There is scope to improve the relationship between businesses and the VOA. In the CBI's response to the previous government's Business Rates Call for Evidence in 2020 (Tranche 2),[27] we highlighted that our members were willing to support the VOA's efforts to move to annual revaluations by providing more timely information and on a regular basis. We also called for the process to be streamlined and simplified as far as possible to minimise the administrative burden for businesses. However, members have found that the manner in which the VOA operates very difficult to engage with.

The CCA process is available for ratepayers to formally challenge their rateable value if they do not agree with it.[28] The process enables businesses (usually operating through third party advisers known as agents) to check the VOA's assessment of the value of the property, challenge this if there is disagreement and then appeal the VOA's decision.

Although this follows a logical sequence, and is designed to reduce the need to escalate issues, CBI members have experienced multiple cases where the VOA does not make decisions early enough in the process to avoid unnecessary administrative burdens.

For example, when it comes to the Check stage members have found the VOA does not always make factual adjustments to valuations following notification of changes to properties such as demolitions. In one case, having notified the VOA in 2021 of significant demolitions to a hospital site, the VOA completed the Check by suggesting no change was required, forcing the ratepayer to Challenge.

This frustration is indicative of wider challenges at each stage of the CCA process. Slow VOA response times in direct engagements are cited as a problem by businesses, their agents, billing authorities (particularly responses to billing authority reports), and in gaining a determination from the courts at the Appeal stage. A lack of transparency as to how evidence has been analysed to calculate property values remains an issue.

Members are also concerned that the VOA can make unilateral changes to its guidance, often without explanation, and ratepayers have no clear route to appeal this kind of change even though it can affect their rates bills. For example, the VOA changed its interpretation of rateable value to include a requirement that rents must provide a return on the landlord's investment in constructing a hereditament rather than be tied to a hypothetical tenant's ability to afford the rent. This was not supported by legislation or case law, leading to higher bills for those in newly constructed properties that may not reflect their actual rent.

The solution

Resetting the VOA-business relationship

The relationship between the VOA and business needs a reset to enable better collaboration and transparency in the way the agency operates.

In much the same way that HMRC set out metrics for what they are trying to achieve in simplifying the broader tax system and meeting its customer service mandate,[29] the VOA should follow suit by establishing and publishing metrics to ensure that customers are satisfied with the service being provided through processes such as CCA.

To ensure this is effective, businesses should be consulted on which metrics to use. Although HMRC's metrics were a step in the right direction, there were significant flaws in their design, as they do not offer a way to quantify or identify the cause of complexity in the tax system, nor do they encompass the experience of all taxpayers, only focusing on individuals and small businesses without reference to complex and large business taxpayers. The CBI has made recommendations on how HMRC's metrics should be improved to capture the impact on large and complex businesses, better measure costs of compliance and consider the efficacy of the tax policy design. These recommendations should be extended to the VOA to ensure that the most appropriate metrics are chosen.

Finally, the VOA should reaffirm its commitment to its charter which was published in 2021. The charter commits the agency to providing a "professional and expert customer service experience", underpinned by important values including reliability, responsiveness, fairness, ensuring customers understand their rights and respect.[30] The metrics established should have a clear link back to the values in the VOA charter.

This exercise will ensure greater transparency and reassure businesses and their agents that the VOA's objectives are flowing through to tangible results.

The VOA agent standards which were published in 2024 rightly set out the standards of behaviour expected of agents. The VOA should now also focus on ensuring that it plays its part in fostering a constructive working relationship with businesses and their agents.

Recommendation

Government should develop metrics for VOA performance and customer satisfaction in consultation with business. Performance against these metrics should be published annually, and linked back to the 2021 VOA charter.

Reliefs and exemptions

The problem

Complexity of reliefs

The English business rates system has a bewildering array of overlapping reliefs. While the UK Government website lists 14 types of Business rates relief,[31] businesses often find there are other reliefs or exemptions, or complexities to the content of reliefs that add to this list.

In 2020, the CBI and Avison Young estimated the number of reliefs as 26 with a further 14 exemptions[32] and further reliefs or exemptions have been added and removed since then.

Not only is this system complex, the lack of transparency about all of the reliefs and exemptions available makes the system much more difficult to navigate.

It should also be noted that these reliefs and exemptions are not mutually exclusive in most cases – so a business may need to examine multiple reliefs to determine which produce the best value for them. Many of the reliefs are also discretionary to some extent depending on what a local authority wants to offer, so their value may differ from one business or area to another. All of this makes it very difficult for businesses to have any certainty about how they may benefit.

It is arguable that the only reason so many reliefs are needed is because the business rates system otherwise fails to adjust for specific commercial circumstances or to take into account occupiers' ability to pay. Specific additional reliefs are therefore added to address specific business circumstances and address inequalities in the current system.

Other recommendations in this paper should address some of these concerns, making it possible to simplify the reliefs system significantly. These include:

- moving to a banded model for calculating multipliers should remove the need for small business rate relief and second property relief as the sites currently benefiting from these reliefs would be largely excluded from business rates anyway.

- Moving to annual revaluations should remove the need for transitional relief and the supporting small business rates scheme.

However, there are specific changes to some reliefs which could both save money and ensure the reliefs are fit for purpose.

Charitable rate relief

Charities quite rightly qualify for support from government where they have charitable aims and funnel any income back into their charitable purposes. However, there are a number of examples where those receiving charitable rate relief are not clearly acting for a purely charitable purpose, or where their charitable status gives them an unfair advantage over others providing equivalent non-relieved services.

These include charity shops, which compete for high street space to sell goods, and private healthcare providers where these qualify for charitable status and therefore pay no business rates – when NHS hospitals and GP services do – and university accommodation, which can be charged out at commercial rates lower than hotels or other accommodation providers could afford because they do not suffer business rates.

However, there are clearly competing social policy intentions here: while it may be economically fairer for a charity shop to pay the same rates as any other shop on the high street, there are other benefits - including the charity being able to fund its charitable operations, customers accessing lower priced goods, and the lower environmental impact of reuse of second-hand goods. Similarly, university accommodation is likely to be cheaper for students in term-time if it falls within council tax rather than business rates, and removing the benefit of this could undermine access to student accommodation for many who are already struggling to access affordable housing while studying. Where there is competition with public services, it would arguably be more appropriate to remove business rates from public providers than to increase rates on the private sector as this would create a more transparent, simpler system.

The CBI considers it is for government to decide whether the benefits of any of these services being available outweighs any lost government revenue and economic imbalance that arises from their existence. The relief should be reviewed in this light.

The solution

The CBI recommends that all business rates reliefs are reviewed in light of the other changes recommended in this paper, and wherever a relief has been introduced to address an inequity that is better addressed by a more fundamental reform of the business rates system, the government should prioritise that reform.

Government should also look again at reliefs the CBI recommends are kept including charitable rate relief. This could save government revenue and reduce avoidance, while also ensuring these reliefs are targeted appropriately.

Recommendations

- Review all reliefs in light of the other recommendations in this paper, prioritising reform over reliefs wherever possible.
- Review charitable rate relief to decide if it can be targeted more appropriately to support government policy aims.

Inclusion of public buildings

One of the peculiarities of the business rates system is that it applies to buildings used by public services – in many cases, buildings which have been built and paid for using taxpayer funds, and which are not used for any commercial purpose at all. These include NHS hospitals, government departments, GP surgeries and local authority schools, as well as national infrastructure assets like water treatment plants, gas network infrastructure and rail installations. These bills can be huge: His Majesty's Treasury, for example, has a rateable value of over £17m a year for use of its office in Horse Guards Road in Westminster, up £4.3m on its previous valuation. As a result, the Treasury is one of the top 50 business rates payers in the country.[33] At current rates, that would mean an annual business rates bill of £9.4m.

Since the occupiers of these buildings are generally publicly funded, government usually funds their business rates bills. This is not only expensive, but it makes the system less transparent and gives central government a flawed idea of how much money the business rates system as a whole is generating. At the latest revaluation in 2023, local authority schools were given a value of £2.2bn, NHS hospitals and clinics £1.4bn, police stations and courts £312m, and local government offices £116m.[34] This could mean a collective business rates bill for 2023/24 for these buildings of as much as £2.2bn. Of course, these are not the only buildings to take into account – others including libraries, armed services accommodation, and gas network infrastructure are also paid for through public funding and have no commercial purpose.

This leads to the net value of business rates revenue for government being artificially inflated (as this calculation generally only includes revenue, less the cost of reliefs), making it more difficult to understand the true costs and benefits of the current system.

It also leads to extra complexity through unnecessary administrative burdens for all participants in the system. A local authority school, for example, would need to have its rateable value calculated by the VOA, its local authority would need to calculate the appropriate bill, the school may then appeal (taking on advisers if necessary in the process) and eventually pay the bill, and then the Department for Education must adjust its funding to cover the cost of this bill. Soon, the school could be responsible for updating the VOA under duty to notify for any changes they make to their buildings. All these steps would not be needed if the building were excluded from business rates.

In some cases there is also concern about fairness, because private competitors in the same sector receive business rates relief. This is particularly true of healthcare facilities and schools where privately run facilities often benefit from charitable relief from business rates at the moment.

Some caution must be exercised in simply removing public buildings from business rates particularly in cases where the building is rented from a commercial landlord. Prior to 2000, when public buildings did not pay business rates, anecdotal evidence points to government paying relatively higher rents than equivalent occupiers in the private sector. This is not unique to the public sector: there is also anecdotal evidence that those receiving reliefs under the current system (such as charities and businesses working within enterprise zones) find their rents adjusted accordingly. However, a proportion of public buildings are fully owned by government, and therefore pay no rent at all – and this proportion may rise as a result of current government policy proposals, including building energy infrastructure through GB Energy and the creation of Great British Rail.

The solution

The CBI recommends that where any building is currently used to provide a public service and its business rates bill and any administrative costs associated with business rates are currently paid (whether indirectly or directly) by another government department, that the government should calculate the total cost across government of these payments. This evidence should then be used to publish a fully accurate calculation of the net revenue derived from business rates, and government expectations of revenue adjusted accordingly.

Where any of these buildings are owned outright by government, and there can therefore be no impact on rents, they should be excluded from the business rates system.

As business rates are collected and (at least to some extent) retained by local authorities, central government would need to provide a form of top-up funding via another route to close any gap created in local authority budgets. Overall, we would still expect there to be a saving to government of taking this approach due to saved administrative costs on the part of the building occupiers, the VOA, local authorities and government departments.

Recommendations

- Government should publish a fully accurate calculation of the net revenue derived from business rates, taking into consideration the total costs (business rates bill and administrative costs) of in-scope public buildings, and adjust revenue expectations accordingly.
- Public service buildings without a commercial purpose and owned outright by government should be excluded from business rates and local authorities provided with equivalent levels of funding via another route.

Supporting investment

The problem

The system as a barrier to investment

As a tax on business structures, business rates disincentivises investment to construct and upgrade buildings.[35] This is because investing in a business structure can increase its rateable value (the tax base to which business rate multipliers are applied) and therefore also the business rates liability of a business.

The planned introduction of duty to notify will mean that improvements to properties due to investment in plant and machinery (which are included in valuation calculations) will translate into higher rateable values more quickly. As this will also increase rates bills more quickly, this will act as a further barrier to investment.

This creates two key problems. The first is that lower business investment means lower productivity and lower economic growth. The second is that investment in structures is critical to decarbonising the UK's building stock by making it more energy efficient, especially since "the built environment contributes around 40% of the UK's total carbon footprint".[36]

The solution

As an acknowledgement of this issue, previous governments have introduced several measures, the most notable of which include improvement relief, an exemption for certain green plant and machinery technologies and empty properties relief. Taking each one of these measures in turn, there are steps the government can take to ensure that businesses are incentivised to invest in their structures.

Improvement relief

Improvement relief was introduced by the UK government in April 2024 on the back of CBI calls to incentivise certain improvements to business properties in England by exempting them from business rates for one year from when a business completes its improvements.

However, the occupier of the property has to be the same before and after the improvement works.[37] This makes sense from an occupier incentivisation perspective as the occupier who makes the improvement should benefit from the relief.

However, it does little to incentivise landlords who own over 50% of commercial property[38] as the best time for them to invest in improving their properties is when their units are vacant and between a change in tenants. If this requirement was removed, landlords would be incentivised to invest in their property in two ways: first, for any period that the property remained empty after the improvement they could claim the relief directly, and then when a new tenant was found they could benefit from the relief indirectly to the extent it could be factored into rent negotiations. It could also make it easier to attract new tenants in the first place, as they would benefit from refurbished premises without the increased bills to reflect that. This could reduce the period between reoccupations, and lead to increased revenue and economic activity more broadly as the building would return to productive use more quickly.

Our members have also challenged the limited uplift of one year to rateable values as not providing enough of an incentive for them to make investments, particularly as there is no obvious link between the amount that would be saved in that year compared to the cost of the investment made.

Consideration was given to whether an investment cost-based relief could be introduced (e.g. where a businesses' rateable value would not increase following an investment until the relief has covered a certain percentage of the cost incurred). Although appealing to some members, capital allowances are a well-established lever for incentivising capital investment and this is where government's focus should be to begin with (the last part of this section explores how capital allowances can play a greater role in supporting green investment in buildings).

Instead, CBI members considered an extended period of relief for three years should be applied to act as a better investment incentive.

Recommendation

Remove the requirement to have the same occupier of a property before and after improvement works to qualify for improvement relief and extend the delay to uplifts from 1 year to 3 years.

Empty property relief

Empty property relief seeks to lessen the financial burden on property owners that are not generating revenue from their properties while they are vacant. Empty properties offer the best opportunity for their owners to invest in upgrades to make them more productive for and attractive to prospective occupiers' business needs and to make them more energy efficient, particularly as works in this period will cause no disruption to occupiers.

However, empty property relief, which exempts business property owners from paying business rates on their property, is only available for three months in England.[39] This was not always the case and prior to 2008, vacant property (other than industrial property) paid a 50% liability.[40] Scotland has introduced a Fresh Start Relief which provides businesses occupying certain long-term empty properties with a 100% business rates discount provided certain conditions are met[41] and this could be an example for England to learn from.

Research commissioned by the British Property Federation demonstrates that it "typically takes at least 12-18 months for the majority of retail units to find a new occupier".[42] This means therefore that for 9-15 months of the period a unit is empty, property owners are having to pay full business rates liabilities (while earning no rental income and placing minimal strain on local public resources) when they could instead be diverting this capital into upgrading their properties.

The way this relief is designed has led to a number of unexpected outcomes. Common issues include the interaction between the relief and the 'reset period', which allows landlords to claim further empty property relief if the building has been occupied for a certain period. Currently, this is three months. In some cases this – combined with the short 3-month relief and unavoidable costs such as maintenance and security costs – can incentivise businesses to engage in mitigation. This can be done through their own initiative or by employing agents to find temporary tenants and/or to rent to those who benefit from reliefs themselves (such as charities). While it ensures the building is occupied it is not necessarily occupied to its greatest economic or community advantage, and it can delay or prevent investment as long as these tenants are in the building. Unfortunately, some mitigation strategies have been even more extreme – with a small number of landlords accused of having let a building descend into a state of disrepair, as that can also extend the period for which relief is available.

There has been ongoing concern in rural areas, where it often takes longer to find a replacement tenant than in urban areas which leaves the landlord paying the rates bill. Whilst government policy encourages farms to diversify and make the most of their assets, empty property rates are a real disincentive to convert these buildings to business use.

Rather than offering positive incentives to enable property owners to capitalise on the investment opportunity that an empty unit presents, government policy has been focused on making the system more punitive to dissuade certain practices. As an example, the 'reset period' was increased from six weeks to three months in the 2024 Spring Budget, making it harder for property owners to reset their ability to claim empty property relief.[43]

Ratcheting up the penalties for such behaviour without a corresponding positive investment incentive risks worsening the problem. The recommendation above to remove the requirement to have the same occupier of a property before and after improvement works to qualify for improvement relief will support investment in vacant units. A further step would entail making the empty properties relief more generous which would help to direct capital towards upgrading properties and away from the market for mitigation.

Recommendation

Conduct an impact assessment on extending empty property relief from 3 months to 6 months followed by a 50% discount thereafter. This should include benefits such as greater tax revenue due to less mitigation and increased economic activity from higher reoccupation rates. The dynamic effect of increased investment by property owners resulting from lower rates bills should also be considered.

Green investment

The green plant and machinery exemption was introduced in April 2022 to "support investment in green energy efficiency".[44] The measure exempts eligible plant and machinery such as solar panels and wind turbines from business rates until at least 2035.[45]

However, as identified in the CBI's Tax and Green Investment Report,[46] this measure does not extend to CCUS or hydrogen related infrastructure (both technologies were identified as key green growth prizes by the CBI's Going for Growth Report).[47]

Recommendation

Add plant and machinery required to set up CCUS and hydrogen infrastructure to the list of "excepted renewables plant and machinery" for business rates.

Although not a relief for business rates, capital allowances can be better used to act as a complementary lever to support investment in adopting heat and buildings solutions to increase the energy efficiency of business structures.

The capital allowances system does not reward green investment in making buildings less carbon intensive as well as it does with other assets. As an example, plant and machinery that qualifies for full expensing (e.g. computers and office equipment) can obtain corporate tax relief equivalent to 100% of its cost in the year of purchase whereas extensions and repairs like replacement of a roof with more environmentally friendly materials only receive a flat allowance of 3% per year.[48]

The CBI's Green Growth Report further emphasises the issue of high switching costs to more energy efficient technologies which holds back demand.[49] Given that 3% of UK buildings need to be retrofitted a year to achieve our 2050 net zero carbon emissions target,[50] an ambitious signal needs to be sent by government to boost green investment in this area.

Recommendation

Introduce a targeted green super-deduction at a rate of at least 120% for businesses that invest in retrofitting of business properties and heat pumps, ensuring it covers leased and rented assets, and is available to unincorporated businesses.

A final approach that could be considered includes linking the energy efficiency of business structures to their associated business rates liability. For example, a more energy efficient building could attract a discount to the multiplier applied when calculating the property owner's or occupier's business rates liability, and vice versa if a building is less energy efficient.

However, before this change could be made government would need a new method for calculating buildings' energy efficiency. The energy performance certificate (EPC) is currently used but its design does not correctly represent the data requirements needed to accurately measure the operational energy consumption and efficiency of the UK's building stock. This in turn leads to misleading baseline calculations, which could underestimate the potential cost savings made from critical retrofitting needs.[51] The CBI is working with our members to propose a solution which addresses this issue.

Conclusion

In its Labour Party Manifesto 2024, the new government rightly set out that the “current business rates system disincentivises investment, creates uncertainty and places an undue burden on our high streets”.[52] The recommendations in this report represent an important step in resolving these issues.

Our project, informed by businesses from across the economy, addressed issues in four areas: the way the existing business rates system calculates rates payable; valuation and working with the VOA; reliefs and exemptions; and supporting investment.

We have shown that changing the application of multipliers from an ‘all or nothing’ (or ‘slab’) tax to a banded (or ‘slice’) approach will create a more progressive tax system, removing cliff edges and barriers to expansion. We have also charted a set of steps that should be taken to move to annual revaluations from 2029. This will produce a system that is responsive to economic conditions and therefore sustainable as it will reduce the need for constant government intervention to provide further reliefs and reform.

More can be done by the VOA to ensure that valuation methodologies and associated decisions are more transparent, helping businesses to understand their tax calculations and meet their obligations to pay in a sustainable way. Delaying the duty to notify to 2028 and introducing metrics for VOA performance, particularly in relation to customer satisfaction, will go a long way to restoring the VOA-business relationship.

Reliefs and exemptions are necessary to an extent but can also create complexity and be very expensive. We have zoomed in on charitable rate relief and the inclusion of public buildings to illustrate this and recommend government review these and target them more appropriately. In the context of other recommendations in this paper, significant savings can be made. For example, moving to a more progressive tax system and annual revaluations will diminish the need for small business rate relief and transitional relief respectively.

More should be done to support investment. Recommendations include making improvement relief more generous and conducting an impact assessment to help understand how empty property relief can produce better outcomes. The green plant and machinery exemption should include CCUS and hydrogen which are key green growth technologies. Finally, capital allowances do little to incentivise the transition to net zero – the introduction of a green super deduction would shift the dial on investing in making buildings more energy efficient.

Business rates reform is needed to develop a better system that is underpinned by the principles of certainty, transparency, simplicity, competitiveness and fairness. However, the new government is also imposing a condition that the new system should continue to "raise the same revenue".[53] This requirement, unique to business rates, undermines the fairness the government aims to achieve. It is imperative that this condition be re-evaluated to ensure that business rates reform is approached with an open mind. Not doing so risks business rates reform that inadvertently sustains the imbalances it seeks to rectify.

We urge the government to engage in a meaningful dialogue with the business community to craft a reformed business rates system that aligns with this report's principles. The CBI, informed by a diverse range of business perspectives, is poised to contribute constructively to the government's business rates policy development.

Annex 1: Recommendations and estimated costings in 2025-26

Business rates funding envelope

Chapter	Tax cuts	Potential revenue savings
Resetting the business rates system	Move to a progressive 'slice' tax system *(cost depends on bands and rates. Illustrative example in Exhibit 6 costs £4.1bn)* Fix the multiplier immediately rather than increasing it annually in line with CPI *(costs £0.5bn)*	More targeted relief for small businesses to replace small business rate relief *(savings of up to £2bn as 'slice' system removes small business rate relief in its current form)*
Reliefs and exemptions		Remove supporting small business rates scheme following introduction of annual revaluations *(savings of £211m based on 24/25 forecast)*[54] Review charitable rate relief *(savings of up to £2.4bn based on 24/25 forecast)*[55]
Supporting investment	Improvement relief: remove requirement to have same occupier and extend to 3 years *(costs at least £145m)*[56] Extend green plant & machinery exemption to include CCUS and hydrogen *(costs £3.9m)*	

Wider funding envelope

Chapter	Tax cuts	Potential revenue savings
Valuation and working with the VOA	Transitional relief for increased rates due to valuation methodology change only *(not costed as policy applies on an ad hoc basis)*	Remove transitional relief following introduction of annual revaluations *(no immediate saving as not proposing implementation until 2029. Existing cost is £1.6bn)*[57]
Supporting investment	Green super-deduction at a rate of at least 120% for businesses investing in retrofitting business properties and heat pumps *(costs at least £700k which relates to the heat pumps component only)*	

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