Check, challenge and appeal!

The annual uplift in inflation-linked business rates has been cancelled for the past two years to help businesses weather the coronavirus pandemic. But many companies are having to prepare for a massive rise in rates next spring. **Ian Leech** heard more

Chris Stevens
Avison Young

Rob Cohen
Sanderson Weatherall

Robin Ellis
CBRE

The 2023 rates revaluation will be the first in six years and takes effect from 1 April. New rateable values will be placed on all 2.1 million properties liable for business rates across England and Wales, based on an April 2021 valuation date. This date was, of course, during a period of national lockdown and restrictions.

The Draft Rating List should be published imminently by the government's Valuation Office Agency (VOA). That outlines what the new rateable values (RVs) will be for all commercial properties in England and Wales.

Business rates are calculated by multiplying the rateable value of your property by a multiplier. There are two multipliers – a small business one and a standard one.

This means the draft list and business rates multipliers will give you the opportunity to forecast your business rates liability. You also need to cross-check for any factual inaccuracies which may have impacted the rateable value of your property, so that this can be regularised with the VOA.

Property consultants and surveyors are busy helping reduce clients' business rates liabilities. Chris Stevens, principal within the business rates team at the Leeds office of national consultancy Avison Young, tells *Insider*: "We are in the final few months of the 2017 Rating List. Ratepayers and businesses may be looking at ways to control costs in view of the predicted recession, business rates are a large cost for most businesses and an obvious target.

"However, challenging the assessment is not straightforward as there are essentially three stages: check, challenge and appeal. The onus is on the ratepayer to prove their case. The process can be time-consuming and daunting for ratepayers and businesses. There are strict regulations to follow, and as such, many will need to employ specialist advisers."

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Sanderson Weatherall has been appointed nationally to advise in respect of 3,000 properties in the 2017 Rating List and has saved businesses more than £40m from it. Rob Cohen heads its rating team in Leeds and says draft valuations should also be reviewed to establish if there are any factual errors that can be resolved before they come into effect.

"The absence of market transactions around the valuation date and the fact that non-essential retail and hospitality premises were still mandated to close will make the likelihood of errors high but many valuation issues will be subjective in nature and require formally contesting with the VOA after April 2023.

"Ironically, the postponement is likely to lead to one of the most uncertain and problematic rating revaluations ever seen, with a valuation date that falls at a time when the country was in lockdown and the property market frozen," he says.

Cohen suggest that businesses ensure they have registered for the VOA's online service and claimed their properties on the government portal as soon as possible to assist in preparing for the new list.

While the current 2017 list has lasted for six years, the 2023 rating list will be shorter at three years. During this time your rates payments will be paid based on your new 2023 rateable value up until 31 March 2026 (when the next revaluation starts). So, you only have a three-year window to try to reduce your rateable value before the next list starts on 1 April 2026.

Robin Ellis, senior director of CBRE's rating and lease consultancy in Leeds, says the 2023 rating revaluation is essential so that assessments better reflect current rental values, particularly for retailers and leisure operators for whom market conditions have become far more challenging since the last revaluation in 2017. But he adds: "My concerns are around two main issues – the retention of a transitional surcharge where falls in liability are phased in rather than being based on the new lower rateable value and the level of inflation based on September 2022 CPI which will apply to rates bills from April.

"The government is expected to confirm the transitional scheme which could continue to phase in the savings that some occupiers may have anticipated due to the 2023 revaluation, despite a substantial fall in rateable value.

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"It would be fairer if the government dispensed with downward phasing however, if the system is to be retained, downward phasing should be limited to the first year only to provide much-needed support, particularly in the retail and leisure sectors."

As well as limiting the falls in rating liability where rating assessments reduce, as expected in the retail and leisure sectors, the transitional phasing scheme is used to limit the potential increases in liability where there are substantial increases in rateable value.

Ellis says that if the government adopts a similar transitional phasing scheme as they did for the 2017 list, for larger distribution warehouse properties (defined as those above £100,000 rateable value) the cap in the first year could be set at 42 per cent plus inflation. If this is the case it could provide little or no protection to ratepayers, as the increase in rating assessments are expected to fall just short of the cap.

WINNERS AND LOSERS

Ellis "We are expecting rating assessments for high street retail to fall by between 30 and 40 per cent, reflecting the change in rental levels between April 2015 and April 2021.

"However, if a transitional phasing scheme is adopted, similar to the one which the government used for the last revaluation in 2017, it would limit the reduction in rates bills for the first year to 4.1 per cent for larger premises (assessments above £100,000 RV) or 10 per cent for assessments above £20,000 RV (outside London). Taking into account the likely addition of inflation at around 10 per cent, it could offset any saving so that occupiers pay the same or more than the current amount.

"A revaluation is generally intended to be neutral fiscally so that the government collects a similar tax revenue but, as inflation is currently at around 10 per cent, a typical distribution warehouse may see an increase of rates liability of 50 per cent next year."

Stevens "The greatest increases in liability will be experienced by the industrial sector, in particular logistics. Rates liability for this sector could rise by £1.88bn which means a typical logistical operator with a modern warehouse could see rates increase in 2023/24 by 25 per cent from the previous year.

"The 2023 rating revaluation cannot come fast enough for the traditional retail sector. Since the 2015 revaluation, the tax has changed from being a challenging cost to a significant burden, which in so many cases has become increasingly disproportionate against a backdrop of diminishing margins.

"While the crisis on the high street is not solely a result of business rates, it is exacerbated by a system which is slow to respond to changing trends. These financial struggles are not just felt by occupiers, but also landlords and developers."

Cohen "Added to the uncertainty is the fact the rates multiplier is linked to inflation and the rise in CPI of 10 per cent to September 2022. For those in the logistics sector, this may be compounded with increases in assessments, mirroring the increases in rental values seen over the last six years. The same may be true for those occupying specialist properties valued by reference to build costs owing to the rise in construction."