RHM Commercial

BRIEFING NOTE

NORTHERN IRELAND RATES LEVY

The Announcement

The NI Executive made the surprise announcement on 4 March 2011 that it intends to apply a rates levy to large retail properties in Northern Ireland.

The exact details of the levy are yet to be published but this briefing note summarises our current understanding and provides an analysis of the potential impact.

Planned Implementation Date

1 April 2012

Purpose of the Levy

To pay for the extension of the Small Business Relief Scheme that gives a 50% discount on properties with a rating assessment of £2,000 NAV or less and a 25% discount on properties with an assessment above £2,000 but no more than £5,000 NAV.

The intention is to double the financial benefit of the scheme and increase the number eligible by around a third.

This means the levy will need to raise £8 to £10 million.

What properties will be subject to the Levy?

We understand the levy is likely to apply to retail properties with an assessment of around £500,000 NAV and above, but this figure is subject to public consultation.

Will only retail properties be affected?

Yes. It was confirmed in the Budget Statement on 9 March that the levy will apply to “large high value retail properties; the majority of which are out of town but it will also include the very largest stores in our city centres”.

It is not currently clear whether the levy will apply to retail operations such as car-showrooms.

How many properties will be affected?

We have identified 73 retail properties with an NAV of £500,000 or above:

Type	Number	%
Supermarkets	32	44%
Department Stores	13	18%
Retail Warehouses	13	18%
Fashion Stores	10	14%
Large Stores	4	5%
Car-showrooms	1	1%
Total:	73	100%

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Where are they located?
Our analysis confirms that the levy will hit Town/City Centre properties and those on the edge of towns and cities more than out of town schemes:

Location	Number	%
Belfast City Centre	19	26%
Town Centres	8	11%
Edge of Town	18	25%
Out of Town	28	38%
Total:	73	100%

What level will the levy be set at?
We calculate that the levy will need to be set at 17.4 pence in the pound to generate £10 million of extra rates revenue.

This represents a 32% increase in rates liability.

Which companies will be affected?
Our analysis confirms that 6 of our largest private sector employers will carry over 2/3rds of the burden:

No	Company	% of Levy
1	Tesco	22%
2	B&Q	14%
3	Sainsburys	10%
4	Asda	9%
5	M&S	9%
6	Dunnes	5%

The Assembly should be encouraging these companies to create jobs, not increasing the cost of doing business in Northern Ireland. The proposed levy would, in effect, represent a tax on job creation.

RHM Concerns
We have a number of serious concerns about the proposed levy:

- It will deter the development of new retail stores (and new retail schemes anchored by such stores) and the extension of existing stores.
- It will adversely affect job creation at a time when Northern Ireland is looking to re-balance its economy.
- It is likely to result in job losses because retailers will be forced to cut costs to pay the additional tax.

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- It targets only a small number of companies operating within a particular business sector and is vulnerable to challenge under European Law.
- It is anti-competitive because retailers with rating assessments below the NAV threshold (or those that come with the extended small Business Relief Scheme) would gain a competitive advantage.
- Finally, it is self-defeating because the levy would have an adverse impact on rents, meaning that the Net Annual Values of large retail properties will be lower at the next Rating Revaluation in 2015.

The Scottish Experience

An almost identical levy was put forward by Scottish Executive in November last year and then withdrawn after the impact of the proposal was considered in detail.

The Wrong Tax at the Wrong Time

We understand that a consultation paper will be published in early summer.

It is essential that concerns about this proposal – the wrong tax at the wrong time – are forcefully communicated to the Executive through MLAs and MPs before, during and after the consultation period.

What is the alternative?

The Small Business Relief Scheme is a very blunt instrument that often benefits solicitors and accountants in offices above shops and not the shopkeepers below.

We question whether the scheme should be extended.

If the Assembly decides to extend the scheme, it should be financed from an increase in the regional rate.

This will spread the cost across all occupiers of non-domestic properties, not just a few.

Positive Measures to Encourage Job Creation

The rates system should be used as a carrot, not a stick.

For example, the following ideas would generate economic activity and create jobs but not increase the rates burdon on existing ratepayers:

- Extensions and improvements made to existing properties being exempt from rates until 1 April 2015.
- New offices being exempt from vacant rates until 1 April 2015.
- For disused properties that have been vacant for 2 years or more, granting exemption to a new occupier until 1 April 2015.

More Information

To discuss any aspect of this Briefing Note or other property issues, please contact Nick Rose or Tom MacLynn on (028) 9043 4300.