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# Small Business Rates Relief in the UK: A comparative review

Track: Business Support Policy and Practice – Working Paper

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**Key Words:** Business Rates; Financial Support; Government Policy

## **Abstract:**

### **Objectives**

The authors have been contracted by the Welsh Assemblée Government to conduct an evaluation of the Small Business Rates Relief Scheme in Wales. This working paper will present the findings of the first stage of this evaluation, which compares and contrasts the four different schemes currently running in England, Scotland, Wales and Northern Ireland.

### **Approach**

The working paper will be based upon a comparative review of the four Rates Relief Schemes and a broader literature review of financial support schemes for small businesses. The study will be later developed through a survey of small businesses, focus groups and interviews with key stakeholders.

### **Results**

There are significant differences between the schemes implemented throughout the UK, such that their impact is likely to vary. In the first instance the working paper will highlight these differences and their potential consequences. It is also hoped that some initial data analysis from the survey, focus groups and interviews may be available at the time of presenting.

### **Implications**

The study seeks to evaluate the impact of small business rates relief in terms of a number of factors such as growth, survival rates, employment, location choice and social responsibility.

### **Value**

The study will increase understanding of the impact of small business rates relief and as such will be of interest to policy makers and business advisors.

## **Introduction**

This working paper presents the preliminary work from a research project commissioned by the Welsh Assembly Government.

The principal objectives of this study are to:

1. Assess what impact the small business rates relief has had on small businesses, in terms of their ability to survive and encouraging new businesses to start up
2. Make recommendations on the future delivery of the Welsh scheme

The four areas on which the study is focusing are:

1. Literature on rate relief schemes around the UK
2. The impact of business rate relief on business
3. The wider impact of this relief on the local economy
4. The behaviour of small businesses in relation to business decisions and the composition of costs

This working paper reports the preliminary findings from the literature review stage of the study

## **Findings to date**

This paper summarises the findings from the literature review which seeks to put small business rates relief within the broader context of financial support for small businesses. The review identifies the key issues and themes that are important in an evaluation of tax relief on small businesses. It examines the available evidence on the complexities in the system and the various uncertainties regarding the impact of different forms of support upon small businesses and the broader business community.

The review is divided into two main sections. The first section looks at rate relief schemes within the broader context of public sector support for Small to Medium Enterprises (SMEs); it asks what lessons can be learned from other forms of financial support. Section 2 looks specifically at the non domestic rates relief scheme in more detail. The Welsh scheme is compared with other schemes across the UK and previous research on the extent and areas of impact that the scheme is having on businesses are examined.

## **Rate relief within context**

### *Tax relief for small businesses*

Tax-based mechanisms are widely seen by governments as an effective means of supporting businesses. Research conducted at an international level appears to show that, other things being equal, those countries that keep rules and regulations to a minimum and offer tax and other financial incentives tend to have better performance in terms of new business development. These studies also show that excessive taxation can be an obstacle to entrepreneurship (Fogel, 2001).

The literature tends to support the view that financial support mechanisms of various kinds are perhaps necessary but not sufficient for effective business support. Financial intervention, particularly tax-based mechanisms, must be viewed within the broader context of business support. Small business survival and growth is not just a matter of financial success. There is a need for complementary structures of support if such fiscal incentives are to be exploited to the full (McGreal *et al.*, 2002). Issues such as managerial problems and skills deficits also need to be addressed through effective policies and support (Doern, 2009).

However, from the point of view of small business owners, tax is clearly a priority and an emotive issue. For instance, a survey of 3,530 small business owners conducted in the USA in 2008 found that tax issues including property tax were among the most commonly reported problems worrying small business owners (National Federation of Independent Businesses, 2008).

The business literature also draws attention to the fact that different types of financial support can produce different effects on businesses. So, while reducing the tax burden might be viewed as desirable in itself, opportunities to exercise beneficial influences on the ways business operate can be missed if there is lack of clarity as to what the intervention is aiming to achieve. This might include, for instance, stimulating investment, increasing employment, increasing the level of entrepreneurial activity or simply improving survival rates. Research suggests that different approaches to reducing the tax burden can have different impacts (c.f. Laramie & Mair, 1993; Potter & Moore, 2000; Rodrego & Felipe, 2010).

The ways in which different forms of financial intervention can affect outcomes can be illustrated with reference to recent research on financial incentives designed to stimulate research & development and levels of new firm formation. A recent study based on businesses in Quebec found that tax credits are preferable to a level based tax incentive in stimulating business expenditure on research and development (Baghana and Mohnen, 2009). The impact of tax incentives on levels of entrepreneurial activity has also been examined. In a study conducted in the US in 2006, it was shown that various tax incentives (the study covered income tax, capital gains tax, corporate tax and state taxes) appeared to have a significant effect on self employment but were ineffective in generating meaningful changes in levels of entrepreneurial activity (Donald and Mohsin, 2006).

Applying this logic to rates relief, the rationale for such schemes is arguably to benefit small businesses by easing cash flow. If we accept this as the intended purpose, then a simple rate reduction that cannot vary through time may not be the most effective mechanism. Governments have also attempted to relieve the cash flow burden of small businesses by extending the period over which they are allowed to pay business rates. In 2009 for instance, the UK government introduced legislation to allow companies to pay their business rates over three years; the Chancellor of the Exchequer commented that "the government recognises that businesses need now to ease their cash flow at a time when money is very tight. This measure will help businesses to smooth their rates payments over the next three years" (Cunningham, 2009).

The literature also provides evidence that threshold levels in financial interventions can often create unintended negative consequences. This is likely to be an issue for small business rate relief schemes which are threshold based. This can be seen in recent studies of the effects of VAT thresholds which suggest that firms are proactive in managing their activities to stay below threshold levels. Strategies identified to achieve this include the practice of separately incorporating business segments (where larger firms arguably masquerade as a number of small firms (Onji, 2009). There is also a case identified where business owners purposefully restrict the growth of the business in order to remain below threshold levels (Parry, 2010). It might be expected that similar behaviour would be found in relation to threshold based rates relief schemes. Understanding such manipulation strategies is important to further policy development.

### **Non domestic rates relief schemes**

#### *The application of non domestic rate relief scheme across the UK.*

Small business rates relief schemes are currently in place across all four countries of the UK. These schemes are generally justified in terms of providing some financial support for small businesses, particularly in the recent period of economic hardship. The focus of these schemes has also varied over time and attempts have been made in different periods to target the highest relief on particular types of business (e.g. post offices) and specific localities (such as rural areas, deprived communities). The onset of economic hardship in the current recession however, has tended to lead to extension of schemes to cover a wide range of small businesses regardless of location. This has culminated in an announcement by the former Labour Chancellor in his last budget statement in March 2010 that businesses with a RV of less than £6,000 would pay no rates in England (HM Treasury, 2010) and this relief will be adopted in Wales by the Welsh Assembly for one year.

While there are broad similarities between the Rate Relief Schemes in the four countries, there are some significant variations also that reflect the different ways in which these policies have evolved, variations in policy priorities and differences between countries in relation to business types and commercial property markets.

As shown in Table 1, there are significant differences in a number of characteristics of these Schemes:

- There are differences in the definitions of Rateable Value thresholds, RV bands, levels of reductions and the use of sliding scales.
- NI and Wales schemes are applied automatically while businesses in England and Scotland are required to register in order to receive relief.
- There are differences in the way relief is applied to businesses that operate from more than one property.
- The Welsh Scheme also differs from others in seeking to target particular types of business (Credit Unions, Childcare).

**Table 1: Comparison of the four Small Business Rate Relief Schemes**

	Scotland	England (pre budget 2010)	N. Ireland (2010)	Wales (pre budget 2010)
<b>Lowest RV band and reduction</b>	Below £3,000 50% reduction	Below £6,000 50% reduction	NAV *of £2,000 or less 50% reduction	Below £2,400 50% reduction
<b>Middle RV Band and reduction</b>	£3,000-£7,000 Sliding scale 40%-10%	£6,000-£11,999 Sliding scale	NAV £2,000-£5,000 25% reduction	£2,401-£7,800 25% reduction
<b>Top RV Band And reduction</b>	£7,000-£10,000 5% reduction	£12,000-£17,999 (£12,000-£25,499 in London) Use small business multiplier	P.O.** NAV £9,000 or less 100% reduction P.O. NAV £9,000-£12,000 50% reduction	P.O. RV £9,000 or less 100% reduction P.O. RV £9,001-£12,000 50% reduction And until March 2012: £7,801-£11,000 <b>Retail Premises</b> 25% reduction. <b>Credit Unions</b> up to £9,000 50% reduction. <b>Child Care</b> up to £12,000 50% reduction.
<b>Business need to register for rate relief?</b>	<b>Yes</b> if eligible for small business rate relief of 10% or more (all subjects under £10,000 will receive 5% by default)	<b>Yes</b> with local council	<b>No</b> applied automatically	<b>No</b> applied automatically
<b>Apply to more than one business property?</b>	YES but cumulative total of all RV used so three properties £3k+£3k +£3k will only get 5% reduction.	To qualify businesses usually only allowed one property with RV up to £11,999 ,they are allowed other properties with RV up to £2,600	YES	YES Relief is for property not the business. <b>BUT NOT</b> for retail premises where the 25% reduction only applies to one premises.

\*NAV-Net Annual Value

\*\* - P.O –Post Office

The Scottish Government from April 1<sup>st</sup> 2009 introduced a 100 percent rate relief scheme for all business with a Rateable Value (RV) of less than £8,000. This move was celebrated by the Federation of Small Business (Federation of Small Business, 2009). In April 2010 the Northern Ireland Office introduced a rate relief scheme similar to the one used by the Welsh Assembly. In Scotland, businesses have to apply for the relief, which can be 10 percent or more of rate cost. Relief is available for a cumulative total of all business properties up to a rateable value of £10,000. In England, businesses must also apply for the relief. To qualify, businesses are usually only allowed one property with a rateable value up to £11,999. However, they are allowed another additional property with a rateable value up to £2,600.

Northern Ireland has just introduced a scheme in 2010. This scheme is based upon that in Wales but in a simplified form where the sector specific rate relief is mainly targeted at Post Offices. Relief is available up to a net annual value of £5,000 for most businesses, but up to £12,000 for post offices. The relief is applied automatically. The scheme in Wales, which is the main focus of this study, is based upon rateable value and property type. The relief is applied automatically. The scheme is examined in more detail in the next section.

#### *The rates relief scheme in Wales*

The Welsh Assembly introduced the Small Business Rates Relief Scheme as a result of its commitment in the One Wales agreement to 'enhance the business rate relief scheme, within the context of more effective support for businesses.'

Initially the scheme funded 37,000 businesses with the Rate Relief Scheme and reports would suggest that it has expanded to cover over 45,000 businesses (Labour Matters, 2009). A further expansion of this scheme is recognized by the Local Government Minister Carl Sargeant (Morning Advertiser, 2009) as important to the Welsh SME sector.

*"I have listened to the concerns of the Federation of Small Businesses (FSB) and the Wales Tourism Alliance. They have told me that they would welcome an increase in the upper thresholds for small business rate relief."*

This view appears to be supported by Plaid AM Nerys Evans (Narberth, 2009).

The current scheme covers all types of small business, but makes specific reference to particular types of activity that have an important role in supporting local communities including post offices, child care, credit unions, small retail outlets, petrol stations and public houses.

Matching England's move, the Local Government Minister Carl Sargeant stated that the new Welsh NDRR scheme would mean that *'Around half of small businesses in Wales will pay no business rates for the year from 1 October 2010 and roughly 20% more will see their business rates significantly reduced.'* (BBC, 2010)

### **The impact of rates relief**

We now turn attention to the main purpose of this study which seeks to assess the impact of rate relief on businesses. While there are many recent studies in the academic literature on taxation issues for small businesses, there is much less research on the impacts of nondomestic property tax. There are summaries and updates on property valuation (Hudson 2005) and articles that refer to the role of rate relief as part of a mix of measures to support businesses within UK Enterprise Zones (Potter and Moore, 2000) and more recently in Business Improvement Districts (Cook, 2008).

There is also general comment on the significance of business rates as a fixed cost over which small businesses have no control (Laramie and Mair, 1993). This has significant implications for the impact that rates relief may have on small businesses. As a fixed cost, rates can be a particular burden in economically difficult times when shrinking revenues can squeeze profitability. Rates relief can therefore be viewed as an intervention that is particularly relevant in situations where businesses experience very tight profit margins.

However, very little research has been undertaken to evaluate the impact of rates relief schemes, and that which is available predates the existing schemes under examination. The findings from these studies may perhaps hold useful lessons. Damania (1986) noted that the impact of non domestic property taxes upon geographical variations in business activities is fairly unclear and evidence is contradictory. Various statistical analysis of the relationship between business rates and regional employment performance, for instance, produce conflicting results which generated a debate as to how these impacts can best be measured and assessed.

While less satisfactory as an approach, it is possible to infer the potential impacts of rates relief by examining studies of other specific tax interventions. As an example, a recent study based in Chile attempted to assess the impact of corporate tax rates (a direct cost) upon the demand for capital and labour. The study found that cutting tax rates had little impact on labour demand in small businesses. Rather, it tended simply to reduce the demand for capital (Rodrigo and Felipe, 2010).

Logically, we can also argue that if firms treat business rates as an overhead cost, reductions in business rates are unlikely to translate, for example, into increased employment (i.e. increases in wage costs). Even if rates were seen as a direct cost on turnover there is still no guarantee that a cut would stimulate employment. On the other hand, there is evidence from UK enterprise zones that tax incentives, alongside other measures, can contribute towards the attraction of inward investors and increases in employment with a high proportion of new local jobs (Potter and Moore, 2000).

As regards the likely variation in the impacts of rate relief on different types of business, there is little hard evidence available to support hypotheses. Intuitively, it is quite likely that the relative importance of rate relief will vary between types and sizes of business and between business locations. An important dimension of this study will therefore be an assessment of the relative burden of non domestic rates on different types and size of business and to evaluate the relative impact that the NDRR scheme has on different groups.

The preliminary conclusion from the literature reported above is that little research has been conducted previously on the impact of rates relief on business and this probably reflects the belief that rate relief *on its*

*own* represents a relatively small amount of money for the vast majority of businesses. To illustrate this point, Baldock (1998) looked at small business land and premises support schemes implemented through an urban support program in London throughout the 1980's. The study concluded that where the level of support represented a very small amount of funding for a business the impact was marginal. Small amounts of financial support did not appear to have changed the patterns of sectoral performance for the small businesses involved. It was suggested that more selective targeting of businesses to support would represent more effective use of funding. The study also concluded that individual support mechanisms are more effective if designed as part of a more co-ordinated and overall integrated local economic policy.

There are, however, exceptions to this generalisation. Research on 30 firms involved in the Scottish NDRR scheme in 2004 suggests that the small amount of relief available would have some tangible effects on micro and new business. In their conclusions, the researchers recommended that future research covers a much broader number of business (Scottish Government, 2004). The Scottish research is supported by case study evidence from the Scottish FSB. Three examples are used to demonstrate how it is possible for rates relief to contribute towards setting up a new business, allowing an SME to invest in new equipment and enabled a micro business set up in 2009 to employ its first member of staff (Federation of Small Business, 2009).

### **Equity and targeting of Rate Relief Schemes**

There is also little academic research on other aspects of rates relief, such as the equity of schemes, the effectiveness of targeting and the cost of administration associated with schemes where application is required. By comparison, there is considerable comment on these issues in the *policy* literature. It has been observed, for instance, that while rates relief may be a practical solution to supporting business with small premises from an administration point of view, this form of support does not always produce equitable solutions. Not all business in small premises, for instance, are SMEs and not all small businesses occupy small premises. The Scottish Government have approached this dilemma by limiting the relief to business with a *cumulative* rateable value of £10,000 (Scottish Government, 2009) and the English scheme restricts rates relief to businesses occupying only one premise (Business Link, 2010) thus excluding larger businesses with a collection of small premises. Rateable Value increases dramatically in London so the English rates relief scheme allows an equitable distribution of the relief increasing the maximum RV for benefit of NDRR to £25,499 compared to £17,999 in the rest of England (Valuation Office Agency, 2010).

Despite these attempts to introduce greater finesse into the targeting of rates relief, commentators still find room for criticism of the rates relief mechanism which, by definition, excludes many small businesses engaged in "space-extensive" economic activities particularly in manufacturing, transport and wholesale activities. Mowlah (2006), for instance notes that cabinet makers are treated unfairly as they "need larger premises due to the nature of their business".

Government raising tax must ensure that it is recognised as fair and equitable. The FSB recognises the importance of the Welsh Assembly actions in regards to NDRR and the 'multiplier' in redistributing the Welsh business rate burden from SME to larger business (Wales Online, 2009). Conversely the effect of the increased multiplier on larger Welsh business has to be considered (Western Mail, 2009).

### **Barriers to access and hidden cost of rates relief schemes**

It must be recognised that the tax burden for small businesses lies not just in cost and cash flow issues but also with issues of administration associated with access to information on schemes, gathering relevant information and compliance with rules related to qualification. Compliance with tax regulations can be a major burden for small businesses (Chittenden *et al.*, 2003; 2005). A recent study in Wales looked at over 1,600 SMEs and found that fixed costs of tax compliance bear substantially more heavily on the profitability of smaller SMEs (Foreman-Peck *et al.*, 2006). This has an implication not just for the level of rate relief given to businesses but the procedures for administration of that release and in particular whether relief must be applied for or whether it is granted automatically.

To make rates relief accessible, the Welsh and the new Northern Ireland scheme is paid without the need for the business to apply. The Scottish and English schemes still require applications from business which makes them slightly less accessible for business but it is perhaps possible to exercise greater control over administration and targeting. FSB research would indicate that the Scottish and English policy appears to lead a slow uptake of rates relief from eligible businesses with only 49% of businesses eligible claiming rate relief in 2005 (Federation of Small Business, 2008).

The communication of rates relief schemes to businesses operates through public bodies such as Business Link and the Valuation Office Agency. The Forum of Private Business 2009 survey of 4,000 businesses indicated that rates relief should be automatic as the greatest barrier for small business accessing this support is lack of business awareness of the scheme or a belief that the application process is too complicated. These

findings accord with other studies that have taken a broader view of compliance costs both of tax regulations and broader business regulations upon small businesses (Chittenden *et al.*, 2005; Peck *et al.*, 2009)

### Links with rental charges: Who gets the benefit?

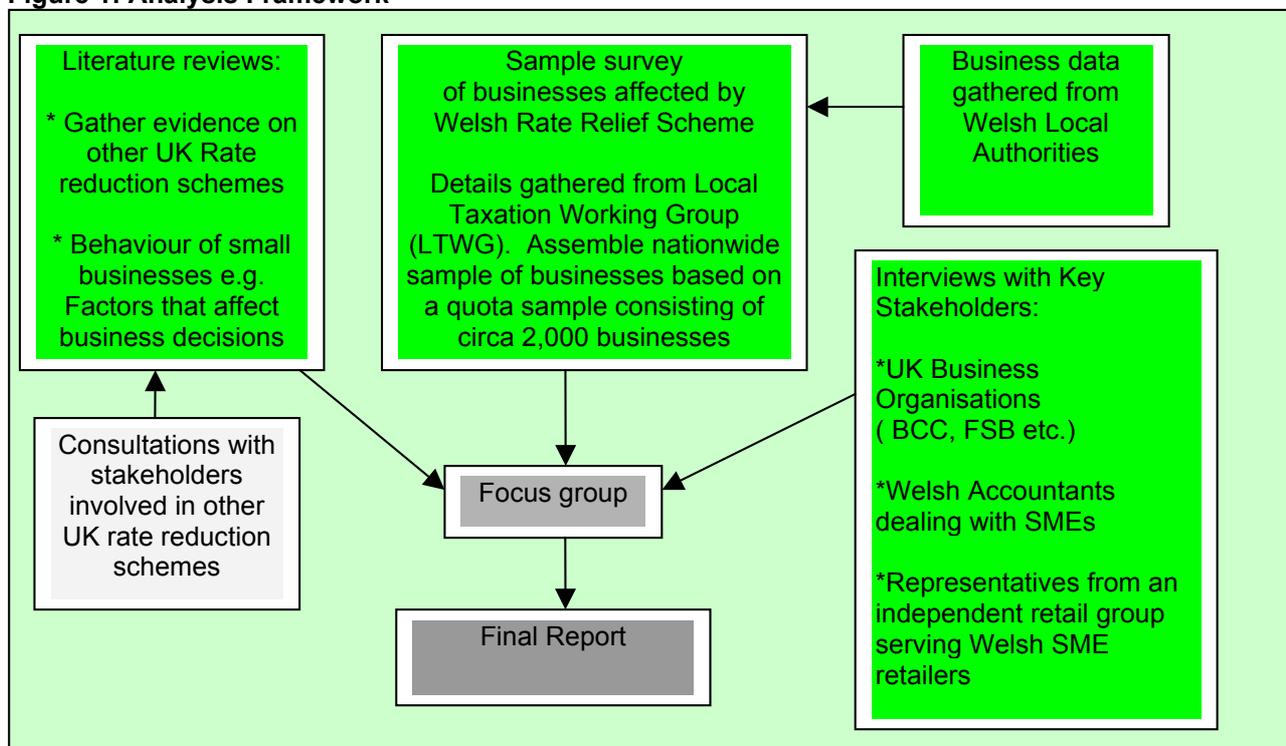
One further issue that appears contentious in policy literature concerns the possibility that the benefits of rates relief to businesses tend to be cancelled out by inflated rents for relevant commercial properties. This assertion seems plausible, but difficult to prove or disprove. There have, in fact, been conflicting research results from studies that attempt to correlate movement in rates charges to the movement of rental charges. Sibley (1989) found that rate charge differentials across areas tended to push rental charges down whilst Crosby and Keogh (1990) found little relationship between rate charge increases and rental charges. Eve (1993) found a weak correlation between rate increases and a reduction in rental values, however these results are not strong. This in part reflects the findings of Bond *et al* (1996) who suggested that the level of rent landlords can raise from business reflects a large number of factors including: quality of the property; quality of the location; elasticity of the supply and national economic conditions. Bond *et al* (1996) also suggest that the time lag between rental agreements and the introduction of rate relief schemes may mean that NDRR has little effect on overall rental charges.

None of the studies above provide clear evidence as to whether rates relief is soaked up in rental charges. However, it is clear that rent must also be considered as part of the fixed costs of property users. Research by Crosby *et al.* in 2006 found that a significant number of micro-businesses take no commercial advice when negotiating leases even when they have no prior experience.

### Methodological design of the evaluation

The study will be based on evidence gathered from multiple sources, including surveys, interviews, consultations and a focus group with relevant policymakers and small business support organisations. These will generate both qualitative and quantitative data (see Figure 1) and will give a clear picture of the impact of the rates relief scheme on businesses. These data-gathering mechanisms, questionnaire design in particular, will seek to address aspects of *additionality* in the current scheme and the *counterfactual* situations that might exist under other policy scenarios.

**Figure 1: Analysis Framework**



#### Interviews with national stakeholders

The literature review will be supported by **interviews with national stakeholders** from the public and private sectors. The contact details for stakeholders from the public sector were provided by the WAG and are with key personnel responsible for the delivery of the rates relief scheme in Scotland, Northern Ireland and England. We have also approached stakeholders from the private sector including various trade bodies whose

members have received rates relief in Scotland, Northern Ireland and England (the Scottish Grocers Federation (SGF), the Northern Ireland Retail Trade Association (NIRTA) and the Association of Convenience Stores (ACS). These interviews will be used to gather opinion on the principle of rates relief for small businesses and the operation of schemes in the different national contexts. To gain some perspective from those responsible for the rating system an interview will also be conducted with a representative from the Institute of Revenues Rating and Valuation (IRRV).

## **Stage 2-Assessing the impact of the scheme-the primary research**

### *The target population of businesses – quota sample*

The approach to selecting businesses for the survey will be based on a quota sample - an attempt has been made to construct a sample whose characteristics generally mirrored the population of small businesses in Wales in receipt of rates relief as a whole. It was decided that a sample return of around 400 questionnaires would generate sufficient accuracy for the purpose of the evaluation.

To construct an appropriate sample of business addresses, we gained the support of the Local Authority representatives at the Local Taxation Working Group. Each Local Authority agreed to supply a list of all business names and addresses in receipt of rates relief in their own local authority area. We conducted an initial mail out of 2,400 questionnaires week commencing 17<sup>th</sup> May followed by a mail out of 770 week commencing 24<sup>th</sup> May 2010. A third mail out to a selected sample of 398 businesses that didn't respond to the first two questionnaires was conducted week commencing the 1<sup>st</sup> June 2010.

### *The Questionnaire*

Working closely with personnel from the Welsh Assembly Government the CRED research team produced a questionnaire designed to gather evidence on the impact of rates relief on various aspects of business and the attitudes of business owners towards receipt of such relief. In addition, the questionnaire asked if businesses would be prepared to take part in a follow-up telephone survey and a significant percentage of the respondents agreed to this.

### *Analysis of the survey data*

Subject to the constraints of the questionnaire survey, we anticipated that it would be possible to make comparisons between small businesses in different sectors, those in different locations and those of different size by employee number. A response of 400 businesses should be sufficient to make such comparisons statistically viable.

### *Qualitative data gathering from interviews*

To explore the benefits and costs of the Welsh and similar rates relief schemes, the researchers will also conduct semi-structured telephone interviews with key stakeholders. Individuals that agreed to be interviewed included representatives from:

- a) Association of British Credit Unions Ltd (ABCU)
- b) Association of Chartered Certified Accountants (ACCA)
- c) Association of Convenience Stores (ACS)
- d) British Beer and Pub Association (BBPA)
- e) British Chamber of Commerce
- f) British Hospitality Association (BHA)
- g) British Institute of Innkeeping (BII)
- h) CBI
- i) Forum of Private Business (FPB)
- j) Federation of Small Business (FSB)
- k) Institute of Directors (IOD)
- l) National Association of Master Bakers (NAMB)
- m) National Federation of Fish Friers (NFFF)
- n) National Federation of Retail News (NFRN)
- o) National Federation of Sub Postmasters (NFSP)
- p) Rural Shop Alliance (RSA)
- q) Welsh Tourism Alliance (WTA).

To gain an initial insight on the impact of SBRR in Wales we have also conducted a series of interviews with three local Welsh accountants and had conversations with representatives from a selection of small Welsh retail groups.

### **Stage 3- Follow-up telephone survey of business owners**

To gain a deeper understanding of the impact of SBRR on individual businesses we will also conduct a series of 15 follow up telephone interviews with SME owners who responded to the postal questionnaire.

### **Conclusions**

The key points to emerge from our review of the academic and policy literature appear to be as follows:

On financial support mechanisms in general, studies tend to lead to the conclusion that tax-based interventions can be effective in supporting businesses in general but that the desired impacts of such interventions are best achieved by considering these within the broader context of business support.

It appears that different types of financial incentive can produce different business responses. Reducing the tax burden, in principle, can be viewed as a good outcome in its own right. However, the limitation of tax interventions on their own is that it may not often be possible to link these schemes to particular outcomes for the business: they are more “permissive” rather than “directive”.

There is much less research specifically on the role and impacts of property tax and rates relief in particular. However, the policy literature clearly justifies this mechanism as a means of enabling small business survival and growth. In this context, research shows that local property taxation is an emotive issue for many small businesses and that rates relief may have an impact on the psychology of owner-managers that goes beyond the immediate financial benefit.

While there are few studies of the impacts of rates relief, there is research evidence to suggest that property tax interventions can have unintended negative consequences. These include the effects of thresholds which can simultaneously enable some businesses to survive while others near the threshold restrict growth to remain with the scheme.

To avoid these types of unintended consequences, the rates relief schemes across the UK have evolved in different ways. In particular, there are variations in definitions of thresholds, bands and levels of reductions. Other measures designed to improve targeting on the most vulnerable businesses and also in method of administration (application-based or automatic). The policy literature clearly recognises the dilemmas that arise in seeking to improve targeting, most of which tend to lead to greater complexity in the design of such schemes.

As regards the impacts of rates relief on small business survivability, limited research in the UK suggests that this represents a relatively small amount of money for many businesses and that the financial impacts in buoyant economic circumstances tend to be limited. However, a study conducted in Scotland suggests that there are tangible impacts on micro and new businesses where property tax represents a higher proportion of total cost. We can justifiably hypothesise, therefore, that in the present economic downturn, the significance of rates relief for survivability may be enhanced for a larger number of businesses.

In the policy literature, there is consensus that small business rates relief is a useful tool that can deliver equitable financial support to business trading from smaller premises. However, there is much discussion on the difficulty the public sector has in ensuring that a relief system based on property size reaches the small businesses with greatest need for financial support. There is recognition that not all businesses in small premises are vulnerable and not all small businesses are in small premises. Also, mechanisms need to be in place to ensure that rates relief is not awarded to large businesses that occupy multiple small premises. There is recognition that a balance needs to be struck between effective targeting and the complexity of administration.

The literature review also drew attention to the hidden costs associated with the operations of rates relief. Schemes based on an application process have low uptake in part due to the barriers created by the cost of gathering relevant information and completing applications. On the other hand, schemes that are automatic can prove to be “invisible” to the recipient and awareness of the benefits of receipt may be low.

Finally, there is a perception that some landlords may increase the rents on property in receipt of rate relief. Studies so far would imply that this is rare as the timings of rent reviews and decisions on rates relief rarely coincide and rent charges are based on many other factors apart from rates relief.

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