

**Department of Finance & Personnel  
2015 Review of Local Taxation  
– Business Rates**

**Terms of Reference**

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## Background to the Review

1. In November 2013 the then Finance Minister Simon Hamilton announced to the Assembly his intention to undertake a full review of the non-domestic taxation system. It was intended that this would commence once the non-domestic revaluation had bedded in, would consider whether the current system is fit for purpose and whether there are alternative ways of raising revenue from those who do business in Northern Ireland. On the 12 May 2015 Minister Foster announced to the Assembly her intention to proceed with this review.
2. The following terms of reference have been informed by the work of an Innovation Lab; a type of symposium which took place in early June and was attended by representatives from a broad range of interest groups, business organisations, the voluntary sector, local government, academia and professional bodies. These are listed in Annex A.

### Overview of current non-domestic rating system

3. There are two different rates levied with NI, a domestic rate for residential properties and a business rate for non-domestic properties. Business Rates are a property tax usually levied on the occupier but in the case of vacant property it is levied at a lower rate on the person entitled to possession (usually the owner). Gross charges (before any reliefs) are assessed in accordance with and in direct proportion to a property's Rental Value (also known as Net Annual Value or "NAV"). From 1 April 2015 values reflect the rental value of the property as at 1 April 2013.
4. The total revenue raised through both domestic and non-domestic rates within Northern Ireland is approximately £1.12bn, with approximately 50% of this being funded by non-domestic rating. This is used to fund both local District Council services as well as Regional services e.g. education, health etc. It is worth noting that the total Regional rate contribution to total public spending within Northern Ireland is approximately 6%. A high level breakdown of total rating revenue raised is available in the following table:

Source	Revenue
District	£0.531bn
Regional	£0.591bn
Total	£1.12bn

5. A system of reliefs operates within the non-domestic rating system. These serve to reduce the overall rating burden for particular types of hereditament based on various criteria and results in either higher rates for everyone else or less revenue being available for both District and Regional services. A description of each relief is available in Annex B and the total value of all non-domestic reliefs is as available in the following table:

Relief	Value
Exempt (e.g. charities)	£85m
Industrial De-rating	£57m
Vacant	£56m
Small Business Rate Relief	£17m
Residential Homes Rate Relief	£10m
Sport & Recreation Relief	£4m
Freight & Transport Relief	£4m
Total Value	£233m

## Scope of the Review

6. A number of key principles to underpin the direction of any review were identified by the Innovation Lab, namely that the resultant system after the review should have the following features:

- Simplicity
- Predictability
- Certainty
- Be hard to evade
- Be easy to collect

Likewise a number of key issues were identified:

- Equity within the rating system and whether it can be made fairer
- Other forms of taxation and whether these could be used to either replace or supplement revenue raised by non-domestic rates.
- How non-domestic taxation fits into the wider Economic Strategy for Northern Ireland.
- Optimisation of collection and administration

These key issues align well with generally accepted requirements for a local tax:

- The distribution of the tax burden should be equitable (which includes the incidence of the tax, i.e. which should not only consider the impact point at which the tax is imposed but also its final resting place);
- The revenue yield should be adequate and the tax structure should not threaten overall fiscal targets (revenue neutrality is a working assumption but this will not bind decision makers; whatever system emerges will need to be scale-able)
- There should be minimum interference with economic decisions in otherwise efficient markets; unless this is in pursuit of a wider strategy.

- The system should permit fair and non-arbitrary administration should be understandable to the ratepayer or taxpayer; and administration and compliance costs should be minimized as far as possible.

### Consideration of Options

7. A number of options will be developed. These will take account of any known constraints e.g. financial, legal, state aid etc and only those options that have a realistic prospect of being implemented will be taken forward to the full consultation phase.
8. Any options being presented will also be fully costed so that the full resource implications of any change will be known. Furthermore, an integrated impact assessment will be carried out in parallel to the consultation process which can be updated as and when further impacts become known.
9. Options will be judged in terms of their suitability against the principles and criteria set out above.

### Key Stages and Projected Timetable

10. The key stages and target completion dates are set out in the table below:

Key Stage	Projected Timetable
Issue terms of reference to Executive and publish	Summer 2015
Undertake research	Summer 2015
Draft and publish consultation paper	Autumn 2015
Undertake Consultation	12 weeks
Consider Responses	4 weeks (including independent validation)
Report to Assembly	Beginning 2016
Identify preferred option	Early 2016
Consult again if necessary	Spring 2016
Executive decision	Referred to Executive process
Legislative process	Commence process immediately after Executive agreement.

## **Engagement with key stakeholders**

11. There will be a need throughout the review process to engage with key stakeholders. The exact nature of these engagements will evolve as the review progresses, however, it is thought that this may be needed when e.g. researching the consultation document or providing clarification during the consultation phase. Given the level of collective knowledge now contained within the Innovation Lab, it may be the case that the group could be reconvened at a later date as a sounding board to develop options. The group has already expressed a willingness to help in this regard.
12. The Committee for Finance and Personnel will be consulted throughout and consideration will be given for the need to consult with other Assembly Committees. In addition, the Terms of Reference will be placed in the Assembly Library.
13. As the Review is completed the outcome/recommendations will be presented to the Executive and decisions sought as appropriate. Any subsequent outcome will then be the subject of a Ministerial Statement to the Assembly.

For further information on these Terms of Reference, please contact:

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## ANNEX A – ATTENDEES AT THE INNOVATION LAB

- NI Chamber of Commerce (COC),
- Manufacturing NI,
- Federation of Small Business (FSB),
- Northern Ireland Centre for Voluntary Action (NICVA),
- Northern Ireland Retail Consortium (NIRC),
- A representative on behalf of Institute of Directors (IOD),
- The Association of Town and City Management (ATCM),
- Strategic Investment Board (SIB)
- Local Government, and
- Institute of Revenues Rating and Valuation (IRRV)

Follow up sessions also took place with:

- The Rural Community Network
- Ulster Farmers' Union
- NI Independent Retailers' Association
- Association of Local Government Finance Officers (through NILGA)

## ANNEX B – DESCRIPTION OF PRINCIPAL NON DOMESTIC RELIEFS

Relief	Description
Charitable Exemption	<p>If a property is ‘occupied and used for public benefit or for charitable purposes,’ which includes formally constituted trusts for:</p> <ul style="list-style-type: none"> <li>• The advancement of religion</li> <li>• The advancement of education</li> <li>• The relief of poverty; and</li> <li>• Other purposes beneficial to the community.</li> </ul> <p>It is exempt from rates but only if the organisation occupying the property is not established or conducted for profit, and that the use of the premises directly facilitates the charitable objectives e.g. a church, that is held by trustees whose main objects are the advancement of religion, and the church building is used in connection with these objects.</p> <p>The use of premises for recreation or other leisure time occupation may also be considered to be charitable if the facilities are provided in the interests of social welfare and are for the public benefit.</p> <p>The use of premises as a charity shop will attract exemption if the charity sells goods that are wholly donated, however, if they also sell bought in goods the valuation of the property will be apportioned between the two uses.</p>
Industrial De-rating	<p>To qualify for de-rating a property has to be, technically, a ‘factory’ which is defined in the Factories Act legislation as a property which is mainly used for activities that: -</p> <ul style="list-style-type: none"> <li>• Involve a physical article;</li> <li>• Which must be made, altered or adapted for sale.</li> <li>• The work must be done by way of trade or for purposes of gain, and</li> <li>• Manual labour must be employed in the activity.</li> </ul> <p>Even if technically a factory, industrial derating will not apply if the primary use of premises is for: -</p> <ul style="list-style-type: none"> <li>• The purposes of a retail shop</li> <li>• The purposes of a distributive wholesale business.</li> <li>• The purposes of storage.</li> <li>• The purposes of a public supply undertaking.</li> <li>• Any purposes which are held to be not those of a</li> </ul>

	<p>factory.</p> <p>Whilst it was originally intended to phase out industrial de-rating by 2011 following a further review of rating policy initiated by the Assembly, it was decided to cap liability at the current level of 30% until the end of 2011. Since then decisions have been made by the Assembly and Executive to extend the budget cover for the relief until 31st March 2016.</p>
Vacant	<p>Where a commercial property is vacant empty premises relief of 50% of the occupied rate will be applied.</p> <p>Where exclusions apply no vacant rating charge is levied.</p>
Small Business Rate Relief	<p>The Small Business Rate Relief Scheme aims to support the growth and sustainability of small businesses in Northern Ireland, by providing some small business owners with rate relief. Subject to the eligibility criteria for the scheme:-</p> <ul style="list-style-type: none"> <li>• Business properties with a net annual value of up to £2,000 receive a reduction of 50%;</li> <li>• Business properties with a net annual value of more than £2,000 but not more than £5,000 receive 25% relief.</li> <li>• Business properties with a net annual value between £5,001 and £15,000 will receive 20% relief.</li> </ul> <p>There is no application procedure for the Small Business Rate Relief, as Land &amp; Property Services apply relief automatically to all businesses that qualify.</p>
Residential Homes Rate Relief	<p>The occupiers of the following types of property are entitled to a 100% reduction in the rates payable providing they are used wholly or mainly for one or more of following purpose:</p> <ul style="list-style-type: none"> <li>• The provision of residential accommodation for the care of persons suffering from illness or the after-care of persons who have been suffering from illness.</li> <li>• The provision of facilities for training or keeping suitably occupied persons suffering from illness or persons who have been suffering from illness.</li> <li>• The provision of such accommodation or facilities as are mentioned above for disabled persons not falling within that sub-paragraph.</li> <li>• The provision of personal social services for disabled</li> </ul>

	<p>persons.</p> <ul style="list-style-type: none"> <li>• The provision of facilities under section 15 of the Disabled Persons (Employment) Act (Northern Ireland) 1945.</li> </ul> <p>Application for relief must be made to Land and Property Services.</p>
Sport & Recreation Relief	<p>Rate relief is available for properties that meet both of the following criteria:</p> <ul style="list-style-type: none"> <li>• Are occupied for the purposes of physical recreation at an amateur level.</li> <li>• Make a significant contribution to health care.</li> </ul> <p>Properties which, or any part of which, are used solely for the purposes of a prescribed recreation; and which are occupied for the purposes of a club, society or other organisation that is not established or conducted for profit and that does not employ professionals are entitled to rate relief by way of a reduction of 80% of the rates due on qualifying facilities, which means that part of the property which is used solely for recreation. Bars are excluded from the relief.</p>
Freight & Transport Relief	<p>The occupiers of properties occupied for the purpose of freight transport receive 75% relief from rates. The Department of Finance and Personnel reviewed this relief and it was considered that as the overall sum involved is relatively modest and that any increase may be substantially passed on into the wider economy it was decided to retain the level of relief at 75%.</p>