IPTI Xtracts

Property Tax and Assessment News from Around the World

UNITED KINGDOM – December 2020

CONTENTS

Give UK pubs extra support from repaid Covid rates relief, Labour urges PM

Britain's 47,200 pubs should be enjoying a Christmas bonanza, but 85% are now closed, rising to 93% on Boxing Day

Pubs face losing out on billions of pounds in income over the Christmas period and many may close as a result of coronavirus restrictions, Labour has claimed.

The party has called on the government to use business rates relief returned by supermarkets to provide extra support for the industry.

Pubs and bars made £3.8bn in sales in November and December last year, but will have lost out on the bulk of that income this year due to the restrictions.

Britain's 47,200 pubs would usually have one of their most lucrative weeks of the year over Christmas, but 85% are now closed or unable to trade viably because they are outside tier 1, according to the British Beer & Pub Association (BBPA).

On Christmas Day, pubs would usually expect to sell more than 1m dinners but are now forecasting just 200,000, while the number of pints they pull is predicted to decrease from 10m to 630,000.

Sites in tiers 3 and 4 can only operate as takeaways, and in tier 2 alcohol can only be served with food, an option not available in thousands of "wet-led" bars.

From Boxing Day, when more areas enter tier 4, 93% of pubs in England will have been forced to shut, a Labour analysis claims.

The party said the majority of pubs hit by restrictions were receiving less government support than in the March lockdown.

Lucy Powell MP, shadow minister for business and consumers, said: "Pubs are a vital part of Britain's high streets. They bring people together and help communities thrive.

"They've had the toughest of years as a result of the pandemic and, if the government doesn't step up and put a proper support plan in place to secure their future, it will be last orders for many.

"Boris Johnson is failing our pubs. His glass half-empty approach is a real threat to their future."

The outlook became even more grim after millions more people were told late on Wednesday they would be plunged into tier 4 from Boxing Day.

Large retailers have paid back about £2bn in business rates relief and Labour has called for the money to support the hospitality industry and high street businesses.

A government spokesperson said: "We understand the pressure pubs and other businesses are under, however the current restrictions are essential so we can control the virus, protect the NHS and save lives.

"Businesses can access our unprecedented support package worth £280bn , including the extended furlough scheme, business rates holidays, various loan schemes and VAT deferral in addition to grants of £3,000 a month for businesses required to close."

Is it the end of the road for Property Guardianship Business Rates Mitigation Schemes?

The recent Court of Appeal decision in Southwark London Borough Council v Ludgate House casts doubt on whether property guardianship schemes will survive as a legitimate means of mitigating business rates liability on empty properties. The decision is significant for landlords and building owners seeking to reduce their liability on empty property. It comes at a time when COVID-19 and its impact on public health has interfered substantially with the extent to which occupiers of properties can use their premises and the financial implications which have ensued have resulted in many more properties becoming vacant. This is in spite of the Covid-19-business rates expanded-retail discount introduced earlier this year.

BUSINESS RATES LIABILITY

In England, the taxes payable on the occupation of commercial property are non-domestic rates (NDR), otherwise known as business rates, and, for domestic rating, council tax (different rates and reliefs apply in Scotland). NDR is payable on business premises, whether occupied or empty. NDR on empty property is a tax on a non-incoming producing asset and it has been termed, a *"tax on failure".* As a result, affected ratepayers frequently look to mitigate their liabilities to empty property business rates. It is not surprising that rates mitigation has been a fertile area for disputes between local authorities and landlords, with the courts being asked to adjudicate on the lawfulness of various business rates mitigation schemes.

BUSINESS RATES MITIGATION SCHEMES

There are various schemes which are available. These include:

- granting a lease to a company which then goes into liquidation and then falls within the rates exemption *(Rossendale BC v Hurstwood Properties)*

- granting a lease to a company which uses the premises for storage for six weeks so as to give rise to beneficial occupation with the property then being vacated so as to benefit from the business rates holiday of three months afforded to empty properties (six months for industrial and warehouse premises) *(R(Principled Offsite Logistics) v Trafford Council)*

- granting licences to property guardians to occupy premises with a view to allowing the owner to argue that as the property is being used for residential use, it ought to be removed from the non-domestic rating list, or, that the presence of property guardians ought to reduce the value of the property and result in a lower valuation for rating purposes. Instead of paying business rates, the property guardians should instead contribute to the council tax that becomes payable as part of their licence fee. However, the position is not always straightforward.

WHAT ARE PROPERTY GUARDIANS?

A property guardian arrangement is usually made with a company (the scheme operator) which in turn grants rights to individuals (known as "guardians") to live in premises which are otherwise vacant (e.g. empty offices). Those individuals usually occupy under a short-term licence terminable on relatively short notice (e.g. until the building owner requires it for redevelopment) and pay a licence fee (in essence, a low rent) in return for basic facilities and to live at the property. Usually, the scheme operator will share part of the licence fees with the building owner. The building owner normally pays a fee to the scheme operator, often a percentage of the monies saved by the mitigation scheme. The building owner may actually make a profit whilst reducing or extinguishing their rates liability.

FROM A BUSINESS RATES PERSPECTIVE…

The question of whether or not a guardianship scheme will mitigate business rates liability will depend on who is in "rateable occupation" of the property. The use by guardians of premises as a residence has often resulted in the Valuation Office (VO) removing the premises from the non-domestic rating list on the basis that the building is wholly used as a residence. The result being no liability for business rates but, instead, this creates a liability for council tax: the local authority will still obtain some revenue. However, any council tax payable is likely to be significantly lower than business rates for the same premises. Even if the premises remain on the rating list, the VO may well accept that the presence of the guardians in some parts of the building will result in the building having a lower rateable value and so reduce the rates payable if the property remains liable for business rates.

A WIN, WIN SITUATION?

There has been an upsurge in property guardians during the current pandemic as key workers have occupied vacant property closer to work as temporary housing. The providers of guardianship schemes also point to its other advantages besides business rates mitigation:

- providing affordable accommodation often in close proximity to workplaces or in expensive city centres
- helping local authorities with council housing waiting lists
- protecting the property against squatting, theft and vandalism without the need for additional security costs. This can be particularly important for commercial property given that squatting in commercial property is still not a criminal offence and court proceedings are usually required to regain possession.

THE LUDGATE HOUSE CASE

In the Ludgate House case, the owner of a vacant 11 storey office building (a 175,000 square feet building close to Blackfriars Underground, London), earmarked for redevelopment, agreed with a scheme provider that they would grant licences to guardians to occupy part of the building. The Valuation Tribunal decided that, in spite of the presence of property guardians at the property, it was occupied by the building owner Ludgate House Ltd. Accordingly, Ludgate House Ltd was liable to pay millions of pounds in business rates. That decision was reversed by the Upper Tribunal.

UPPER TRIBUNAL DECISION

The Upper Tribunal held that the guardians' individual rooms were separate units and the relevant occupier was not the owner of the building but the individual guardian whose temporary home it was. The rooms were used wholly for the purposes of living accommodation and the guardians were not liable for rates but were liable for council tax. The building was not a composite because there was no single occupier of the domestic and non-domestic space. That outcome suited the building owner but not the local authority, Southwark, who was granted permission to appeal to the Court of Appeal.

COURT OF APPEAL DECISION

One of the appeal grounds included an argument which fundamentally undermines guardianship schemes: that where the guardianship scheme uses premises in such a way that they should be licensed as a house in multiple occupation (HMO), and no licence is actually obtained, the Court should, on grounds of public policy, decline to allow the building owner to rely on that scheme.

Southwark submitted that the business rates mitigation scheme amounted to a criminal offence contrary to section 72 (1) Housing Act 2004 and the scheme harmed the public interest by undermining the HMO licensing legislation. Once five or more people occupied the premises (in the case in question, 32 people) it would be subject to mandatory licensing as an HMO. If classed as an HMO, having to comply with the minimum standards for health and safety would make such schemes unviable. Southwark submitted that the Court should not allow the building owner to use the premises as an illegal HMO in order to avoid business rates.

The Court of Appeal allowed Southwark's appeal: the building owner (the rate payer) retained "*general control*" of the building and that was enough to leave the building owner with liability for empty property business rates. The scheme provider engaged guardians as their means of providing services to the building owner, who was otherwise liable for the empty property rates. The Court declined to consider the point as to whether the guardian scheme was unlawful.

The Court of Appeal judgment is bad news for the building owner as ratepayer, but good news for the local authority responsible for collecting the rates. Subject to appeal to the Supreme Court, (no news yet), it appears doubtful that property guardian mitigation schemes will survive this decision.

Undoubtedly lawyers will review the contractual terms under which guardians occupy property in the light of the decision. However fundamental problems remain: 100% business rates liability on empty properties and the payment holiday not being long enough. Many feel that no tax should be so high that it directly impacts a company's decision whether it should remain open and this issue was apparent before the current economic downturn. If Santa can bring one wish for business owners this year, it will be a fundamental reform of business rates liability as soon as possible.

Wickes-owner Travis Perkins to return COVID-19 business rates relief and furlough cash

The UK's Travis Perkins said it would return business rates relief and job retention scheme money it acquired from the government for its major home improvement stores Wickes and Toolstation as the DIY market continues to see strong demand.

The company said in a statement on Wednesday that it'll repay £50m ($67m) after it posted "robust" like-for-like sales growth across the group in October and November.

Sales performance in October and November 2020. Table: Travis Perkins

"Given the status of Wickes as an essential retailer, and Toolstation also benefiting from the surge in DIY trade during 2020, both businesses will return the business rates relief received as a result of the COVID19 crisis and repay monies received under the government's Coronavirus Job Retention Scheme," said the group.

"There continues to be strong demand across the DIY market, resulting in particularly strong sales in Wickes and Toolstation, as well as the continued encouraging recovery in domestic RMI across smaller trade customers in Travis Perkins and City Plumbing.

"Volumes with larger customers continue to recover more slowly, impacting the rate of sales recovery in our specialist merchants in BSS, CCF, Keyline and the large contract side of the P&H business. Some larger customers were more impacted by the second national lockdown in November, alongside a negative impact on the kitchen and bathroom businesses as showrooms were forced to close."

Travis Perkins stock has remained buoyant throughout the year, thanks to healthy sales during 2020.

A range of businesses across the nation are starting to give back, or at least pledge to return, business rates relief and money given by the government for job retention during the onset of the coronavirus pandemic.

During 2020, while many industries have suffered, this crisis has boosted a number of retailers and businesses — such as DIY and food staple retailing, as people have been largely confined to their homes.

The UK's five biggest supermarkets have all pledged to return business rates relief granted by the government earlier this year.

M&S CEO reiterates refusal to pay back business rates relief

M&S CEO says business rates relief was "used it in the right way" and won't be returned
Steve Rowe calls on government for clarity as end of Brexit transition approaches: "detail of how we are going to move goods about needs to be finalised urgently"

Marks & Spencer chief executive Steve Rowe has stated the business does not intend to pay back the £80 million in business rates relief it received from the government during the pandemic, according to an interview with The Daily Mail.

While the nation's four largest grocers have announced they will be paying back the relief, Rowe argued that M&S did not cash in during the lockdowns of 2020.

"We haven't paid back the business rate relief and we don't intend to. We are really grateful for the government help and we have used it in the right way to keep the balance sheet afloat," he told The Daily Mail.

In May this year This is Money reported that Rowe had decided against taking an annual bonus for 2019/20 or 2020/21.

During the interview Rowe spoke about the department store's long-term turnaround plans in order to battle falling profits and being ejected from the FTSE 100.

"It was going to be phenomenal. I really thought we had turned a corner. As it was, we announced our first loss ever in the first half," Rowe added.

Elsewhere Rowe touched on the concerns for a post-Brexit retail landscape in 2021.

"We are as prepared as we can possibly be," Rowe told The Daily Mail.

"We don't think food bills for shoppers in Great Britain will go up," he said, "but any administrative burden that falls around Northern Ireland could result in extra costs for customers there. Some foods could cost more.

"Now it is not about a trade deal. The detail of how we are going to move goods about needs to be finalised urgently. Surety of the situation is what we need," he added.

To save the high street, first fix business rates

The UK's property-based tax is not fit for a post-pandemic world

Even before Covid-19, a stroll down the high streets of Britain's less prosperous towns, pockmarked with boarded-up shops, could be a dispiriting experience. The pandemic is making a bad situation much worse. The recent failures of Arcadia and Debenhams alone have put at risk 25,000 jobs and 600-plus stores, many of them “anchors” of town centres or malls. The causes of the retail meltdown, including the online shopping boom, are complex; remedies will need to be no less so. But one urgent reform priority is the property-based tax known as business rates.

Not all store chains are in crisis. Food retailers’ revenues have surged as they have picked up sales from consumers shielding at home, and from hospitality businesses and “non-essential” retail rivals hit by virus restrictions — though grocers have faced heavy costs from scaling up operations to meet demand. After a backlash over £900m dividend payments this year, Tesco bowed to pressure to pay back what it saved from the government’s one-year business rates “holiday”; rivals such as Wm Morrison, J Sainsbury and Asda followed suit.

The estimated £1.8bn the supermarkets are returning could help to fund a one-year extension of the broader rates holiday from next April — which the government should announce now to give struggling retailers and hospitality businesses a vital breathing space.

A thorough revamp should then aim to make business rates fit for purpose. Their principle remains sound; easy to collect and hard to evade, property taxes to fund local amenities date back centuries. The system introduced in 1990 — a tax linked to assessed rental values — ran smoothly for a while. But the tax rate has soared from 34 per cent of “rateable” values to more than 50 per cent, partly to maintain revenues after successive governments introduced reliefs for smaller businesses that left 600,000 paying no rates at all.

Rateable values, meanwhile, became disconnected from the rents they are meant to reflect. They were not revalued between 2010 and 2017, when retail rents slumped in deprived areas but soared in the richest, and retail sales were shifting rapidly online. Transitional arrangements phase in rate increases after revaluations to avoid sudden big jumps, but also slow reductions — which retailers say leaves depressed high streets in the Midlands and northern England in effect “subsidising” affluent parts of the south. The next revaluation is in 2023, so after the rates holiday retailers will be paying rates that reflect pre-pandemic values with little relation to today’s reality.

To make the system workable, the provision that business rates are supposed to raise a similar inflation-adjusted total each year — currently about £26bn — should be dropped. Reliefs should be reviewed and many phased out, and the rate rebased to closer to its original level. Revaluations should be annual, rapidly reflecting changes in conditions. Such reforms could also help to ease the transition for office property, which faces potentially seismic changes if more people choose to work from home post-Covid.

What they will not do is level the playing field with online-only retailers, which pay much lower rates than groups with lots of high-street stores. A digital sales tax would capture some of the shift in sales, but would need careful structuring to avoid simply adding to the cost burden of store-based retailers that have expanded online. Such an idea may merit future discussion. The priority today is to ease the business rate pressure on retailers and slow the retail shake-out. Towns and cities need time and space to manage the transition to the high street of the future.

A business rates cut would be the perfect Christmas gift from Rishi Sunak

We should scrap the current outdated approach and replace it with a fair and sustainable business rates system.

This Christmas marks the end of a 'once in a lifetime' year for retail, when many of Britain's shops have been closed for extended periods due to the coronavirus pandemic.

While the high street is enjoying comparatively positive trading as people stock up for Christmas following the relaxing of restrictions earlier this month, the industry still needs a shot in the arm to support it through these unprecedented times.

Retail was already under pressure before Covid struck.

Competition from online shopping was growing rapidly, but the truth is that retailers were adapting - using online sales, mobile phone apps and click and collect schemes to increase trade.

Business rates are too high. UK property taxes have grown so much that they are now the highest in Europe.

Most recognise the essential role that shopping centres and high street stores play as a feature of the community. Physical retail is crucial in supporting jobs and local economies. To take an example of this, the Broughton Centre near Chester employed nearly 2,000 people before Covid, with the centre contributing £53 million to the Flintshire economy each year.

That is one of the reasons why British Land is sponsoring the new All Party Parliamentary Group on the Future of Retail; cross-party support will be crucial in securing the future of our high streets and supporting the people they employ as we recover from the Covid pandemic.

The main issue is simply that shops have obligations that online-only retailers escape.

The most burdensome of which is business rates: a local tax that must be paid to the council regardless of the commercial success or not of the business concerned.

This tax on physical retail has put the high street at a serious disadvantage, and with Covid-19's impact on top, it threatens to tip many shops over the edge.

Business rates are a charge on most non-domestic property, covering everything from pubs, restaurants, and shops to warehouses, factories, and holiday homes.

It is calculated using a property's 'rateable value', or the estimated value of the property on the open market. Accurate and up to date assessments of this value are therefore essential.

Taxes which are too high can have huge effects on the wider economy and prospects for jobs and growth.

And business rates are too high. UK property taxes have grown so much that they are now the highest in Europe.

In fact, they have risen spectacularly compared to rental values in the retail sector – more evidence that they are not a fair reflection of the value of the properties being taxed. As figures from REVO, the retail property professional body, show, in March 2020 business rates in England were 87% higher than in 2001, whereas retail rents were only 17% higher over the same period.

Business rates also penalise high streets in some regions more than others.

We know from recent research that over 75% of the areas of England and Wales paying the highest rates as a proportion of earnings are in the North and Midlands, the same regions the Government wants to help to “level up” because they face comparative difficulties in terms of creating jobs and growth.

The main task is ensuring there is a fair and level playing field between physical, online, large and smaller retailers.

The Government’s decision to suspend business rates in the first lockdown in March this year was therefore absolutely vital: retailers could not trade, so it was unfair to expect them to pay fixed taxes on their business.

It also served, however, as a recognition that the current system, which taxes businesses on their rateable value regardless of their profitability, is unfair.

This is why the Government has implemented a fundamental review of business rates, which is expected to report in 2021. The key question then is what replaces business rates?

The first task, given ongoing restrictions, is to extend the suspension of business rates well into the new year to give those retailers on the brink at least a fighting chance of coming back. But that cannot go on indefinitely. There needs to be a replacement that is fair, practical and sustainable.

There are solutions here.

Simplest would be a reduction in the rate – a substantial reduction across retail property is long overdue and we would suggest 40% is the kind of figure needed.

The Government could also move to a system of annual revaluations, rather than every five years or more which is the present situation, ensuring rates reflect market conditions and the current rateable value of the property.

Finally, the Government could extend the rates relief on empty retail units to 12 months and introduce a 50% rate relief after this period, to reflect the reality that more and more space is going to lie empty until the market thrives again.

Business rates currently bring in around £26bn for the Treasury, so these reforms would create a tax shortfall of part of that, but this could be filled in a number of ways that reflect the changing balance between physical, shop-based retail and other types who escape the responsibilities shops take on.

Options might include an online sales tax, a turnover tax, or delivery charges.

The main task is ensuring there is a fair and level playing field between physical, online, large and smaller retailers.

The best business rates solution is also one which will give our shops a fighting chance, support jobs and local communities, and allow our high streets to thrive: we should scrap the current outdated approach and replace it with a fair and sustainable business rates system.

Dixons boss Alex Baldock: ‘Business rates reform will save jobs’

Dixons Carphone boss Alex Baldock has remained staunch on his decision not to repay business rates for the time being and urged the government to review the issue.

The electricals business received £103m in government furlough payments and business rates relief during the pandemic but said that this could not counterbalance the loss of store sales when forced to close over the lockdown period.

Dixons Carphone saw a 17% increase in like-for-like sales in the first half to October 31, with adjusted pre-tax profits of £89m, but unlike several other retailers has made the decision not to repay the business rates relief.

Baldock said: “Let’s remember that we were tagged as non-essential by the government, we had our stores closed on us for four months of the year, and the fact that we’ve been able to come through this and perform strongly certainly isn’t because anything has been handed to us on a plate.

“It’s because of two years of hard work – the strategy that we set out to make the most of the strengths of this business and to build on them are coming good.

“This is a business that had it all to do. We had a big challenge in front of us and I think it’s a tribute to the colleagues that we’ve come through as strongly as we have.”

He added: “I do want to make the point that there’s a great deal of difference between our situation and the situation of some others.”

Baldock insisted the retailer has “behaved responsibly” during the pandemic, using the government schemes such as furlough “exactly as intended to preserve jobs” and has not made any Covid-related redundancies.

While he did not rule out repaying the rates relief in future, Baldock maintained that while trading remains uncertain, it wouldn’t be appropriate.

The chief executive proposed that business rates should be reformed to more accurately reflect the current rental prices, rather than implementing an online sales tax, to even the playing field between retailers

He said: “Retail as an industry accounts for 5% of the economy and pays 25% of rates.

“There are tens of thousands of otherwise viable jobs that are at stake unless there is a fairer resettlement of the rates burden.

“There’s a very easy way to do that, which is to resettle rates based on current rental values, not lagging for years. The government has been very quick in some areas in this crisis and it needs to be quick here too.

“The rates need to catch up with where rental values are right now. What that would mean is that the rateable values of warehouses go up and of retail property goes down.

“The benefits of that are that it would be fairer, for a start, largely if not entirely self-funding and would benefit not only retail but also hard-pressed leisure and hospitality for whom the rates burden is also an issue, and it would get people like Amazon to pay some tax.”

He added that an online sales tax would likely add to retailers’ tax burden.

Watches of Switzerland increases revenue and profits forecast again

UK’s bigger seller of Rolex and Omega watches to repay £3.3m in furlough money but retain rates relief

The UK’s biggest seller of Rolex and Omega watches has increased its profits forecast again as the clamour for high-end timepieces shows no sign of abating.

Watches of Switzerland said that, given its recent strong performance, it planned to repay the £3.3m of furlough support money it had received during the original UK-wide lockdown.

However, Brian Duffy, the retailer’s chief executive, said the business had no plans to pay an £11m business rates bill, which has been waived by the government, because its stores were shut for long periods of time.

“Business rates are different,” he said. “Our stores were closed in the springtime and again in November. We don’t think there is the same justification for us to be voluntarily paying rates.

“We have been overburdened with rates forever as retailers and it is probably going to happen again in the future, so, if we get a holiday during this year, we think it is highly appropriate.”

UK sales at Watches of Switzerland, which also owns the Goldsmiths and Mappin & Webb brands, were up nearly 8% in the seven weeks to 13 December. This was despite stores being open less than half the time. A twofold increase in online sales helped make up for the closures, it said. In its US stores, sales were up 23%.

With an average spend of about £6,000, Watches of Switzerland, which floated in 2019, operates in a sweet spot of luxury retail. The high-end watch brands control their distribution tightly and the retailer benefits from relationships with the likes of Rolex, Patek Philippe, Tag Heuer and Omega.

The retailer said it now expected full-year revenues of between £900m and £925m, up from a previous forecast of £880m-£910m. It also expects profit margins to be higher than they were last year. Its shares rose 6% to 555p after the forecast upgrade was announced.

Duffy said the business could “not get enough” of the Tudor Black Bay wristwatches, which are advertised by David Beckham, as well as the near £8,000 Omega linked to the delayed James Bond film No Time to Die.

Dixons Carphone holds back on repaying business rates

Electronics retailer Dixons Carphone has indicated it will not repay the government support it received during the pandemic as it reported a 15 per cent rise in sales and a near-tripling of profits in the UK in the six months to the end of October.

Chief executive Alex Baldock, when asked if the company would consider repaying business rates relief and furlough money, said there was still much economic uncertainty and that it had used the support for its intended purposes. Pressed on whether he would reconsider next year, he said on Wednesday: “We’ll see. There is a long way to go and a very uncertain outlook.”

He pointed out that Dixons Carphone had been deemed a non-essential retailer in both the UK’s lockdowns. “The government closed our shops for four months,” he said, adding that the company had competed against predominantly online rivals “with one hand tied behind its back”. “If we have been winning, it is not because anything has been handed to us on a plate, it’s because of two years’ hard work,” he added.

The past 10 days have seen a flurry of large retailers saying they will pay the business rates that the government waived in response to the pandemic. But they have tended to be those that were allowed to remain open, including supermarkets, discounter B&M, Pets at Home and DIY group Kingfisher — whose rival Wickes on Wednesday said it too would repay rates relief.

Dixons Carphone said the crisis had cost it £155m in profits since March, split between the previous financial year and the current one. Furlough payments to staff and business rates relief have totalled £103m.

In the first half of its financial year to October, government financial assistance was worth £80m, about the same as the profit impact.

The company said that although current trading remained strong, with electricals sales up 12 per cent in the six weeks to December 12, the immediate outlook was uncertain.

Its shares rose as much as 16 per cent on Wednesday after the results were published. Sales in the group's UK electricals business climbed 15 per cent to £2.27bn and profit almost tripled to £95m as customers bought laptops, smartwatches, coffee machines and gaming consoles in particular.

A surge in online sales while stores were closed added £800m to overall UK revenue, with the ecommerce share of revenue doubling to 58 per cent. Despite this, Mr Baldock said the group had no plans to shrink its estate of roughly 300 large stores, saying they were vital to the customer experience.

Revenues in the international division, which includes Greece and Scandinavia, rose 16 per cent to £2.21bn while profit was £81m, up by a third. There was a £36m loss in the mobile division, where sales halved due to the closure earlier this year of more than 500 Carphone Warehouse stores.

Group pre-tax profit was £45m, against a loss of £86m last year. There was no interim dividend and no changes to medium-term forecasts for operating margins of 3.5 per cent and a recovery in mobile performance from next year.

Adam Cochrane at Citigroup said the results were comfortably ahead of expectations and that full-year profit forecasts would rise 10-15 per cent, although he cautioned that it was unclear how long the boost from homeworking would last.

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Sales performance in October and November 2020. Table: Travis Perkins

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The UK's five biggest supermarkets have all pledged to return business rates relief granted by the government earlier this year.

Wholesaler prepared to go to prison after refusing to pay thousands in business rates

Woods Foodservice lost 'virtually' all its customers, which are mainly fine dining restaurants in central London, during the first national lockdown

A London wholesale boss has told Boris Johnson he is willing to go to prison rather than pay business rates while other sectors benefit from relief.

MD Darren Labbett has written to Johnson complaining of the "injustice" of the sector not being included in the rates relief dished out to its hospitality customers.

Labbett told The Grocer the decision to withhold £45,500 in business rates for September to December this year was a response to the government shunning wholesalers from the exemption which was given to hospitality outlets and supermarkets in the spring.

"If they hadn't given business rate relief to all of my customers I would have got on with it," said Labbett. "But it's not just unfair, it's wrong. We keep asking the government why we have been left out like this but they refuse to answer the question. In the grand scheme of things it's peanuts, but to us it's a lifeline."

Labbett has written to the business' Uxbridge MP and Johnson and Chancellor Rishi Sunak explaining his decision not to pay.

Labbett's latest email to Johnson, dated 27 November, said: "My main issue is that all of hospitality received full rates relief for 12 months, which is just and needed."

He added: "However, how can a business that solely supplies the hospitality industry not receive the rates relief? I feel so strongly about this issue that I can tell you now I will not be paying my rates and I am prepared to go to prison if necessary."

The Confex buying group member was obligated to pay £114k to Hillingdon council in business rates this year. However, it's due to only have paid £34k by the end of a 10 month payment schedule to January 2021.

July and August's instalments were deferred by the council to February and March 2021, but Labbett said he had no intention of meeting those deadlines either. It will bring the total unpaid bill to £80k.

The business, which turned over £19m for the year ending April 2020, lost "virtually all" its customers, predominantly fine dining restaurants in the capital, overnight on 23 March when Johnson announced the first national lockdown.

Woods is currently trading at 25% of last year's sales.

November sales were £500k, down from £2m for the same period the previous year.

Currently there is no sector-specific financial help for wholesalers in England, a contrast with rivals in Wales and Scotland, which have been able to access more than £350m in grants.

Defra has told The Grocer consideration for funding is still ongoing.

Introduce a mansion tax on high value properties

The time has come for a mansion tax to generate revenue and address inequality. All forms of taxation need to be considered as the pandemic pushes the UK to its largest decline in annual GDP in 300 years and record levels of national debt. Structural issues such as climate change, healthcare and social provision for an ageing population will put further pressure on government finances.

A recent ONS study revealed that the richest tenth of the UK population saw their wealth rising at more than three times the rate of the poorest 10 per cent. Property contributes more than a third of all wealth, with an increasing proportion generated from inheritance. The Office for Tax Simplification reports that of 591,197 deaths, only 21,850 estates paid inheritance tax in the 2018/19 financial year.

These taxes are disproportionately paid by middle-income earners who do not use the trusts and other avoidance strategies that are now standard practice among the wealthy. The untaxed transfer of wealth to the next generation accelerates social inequality. Large homes and land holdings are widely viewed as an unfair intergenerational tax management system for the richest.

Effective tax rates are also higher for income derived from work than wealth. Researchers at the LSE and Warwick University found that for the 2015/16 tax year, the average person with £10m in taxable income and capital gains paid an effective tax rate of 21 per cent, much less than the tax paid by people living solely from a £30,000 salary.

A study by City University concluded that while job income in 2011-18 was taxed at an average of 29.4 per cent, wealth from house-price increases and pensions had been taxed at just 3.4 per cent — a missing £174bn if income and wealth effective tax rates were aligned.

One way to address revenue shortfalls and inequality would be a new tax on the most expensive properties: 'mansions'. This would have the added advantages of affecting only a small proportion of the population and normalising higher taxes on unearned income.

To function effectively, there must be a visible price/value point that makes clear which homes are 'mansions' and which are not. This is important because recent purchase and sales data are only available for a limited number of properties.

Council Tax bands are progressive but based on 1991 house prices. An updated, fair and clear evaluation system covering all higher value properties would need to be established by the government's Valuation Office.

Charging each year is likely to generate more revenue in the long term than a one-off payment. It would reduce the spending power of the owner, although this is less likely to impact the very wealthy.

A mansion tax payment threshold would have to be low enough to include sufficient homes to generate significant revenues, but would need to avoid penalising people with lower overall wealth. For example, in London and the south-east, where house prices are highly inflated compared to the rest of the country, many people own expensive homes but may not be financially secure because of large mortgages.

Similarly, pensioners who bought homes a long time ago may have since seen the value of their homes skyrocket while they remain on low incomes. Both of these groups would struggle to pay an annual property tax. However, they could easily pay higher capital gains tax at the time of sale or through inheritance tax on their estates.

Regardless of what threshold is set for a mansion tax, it will inevitably become a cliff edge and distort buyer and seller behaviours. Homes valued around the threshold will gravitate to just below, and people may choose to rent out their property instead of selling it. Others may choose to hold property within a trust to minimise taxation.

A fundamental characteristic of inequality is that the wealthy have access to expert advisers and the financial flexibility that allows them to avoid taxes, regardless of their structure. If a mansion tax becomes payable on £2m houses, the wealthy may buy three homes valued at £700,000 to avoid the tax and distort prices.

A more pragmatic approach would be systematic reform of all forms of property taxation to target the top 10 per cent of properties. This end-to-end reform including stamp duty, council tax, capital gains and inheritance tax, will minimise the challenges and limitations of each individual measure.

Digital tools for assessment, calculation and payment need to be at the heart of reform. Tax simplification and ease of payment will encourage and enable compliance. Reform must identify opportunities to reduce costly avoidance. A gradual phasing out of trusts and complex tax mechanisms would be an obvious step. They have no place in a society that is serious about tackling inequality.

Economists like Thomas Piketty have long argued that inequality is bad for everyone, including the rich. While some may never accept this argument, the idea is no longer considered radical. At Davos this year, an international group of wealthy individuals calling themselves the Patriotic Millionaires lobbied for higher taxation on wealth. Changing perceptions of inequality should result in stronger future support for more progressive taxes on all wealth, including so-called ‘mansions’.

Sainsbury's to hand back £440m of business rates relief

Sainsbury's has said it will hand back about £440m of business rates relief it received as support in the pandemic.

It follows supermarket rivals Tesco and Morrisons, which promised to give back more than £850m on Wednesday.

Supermarkets, whose sales have boomed in the pandemic, have been criticised for taking government support while paying dividends to shareholders.

Sainsbury's said its move reflected the fact it was allowed to open in lockdown while non-essential shops had to close.

As a result, its sales and profits had been "stronger than originally expected".

"While we have incurred significant costs in keeping colleagues and customers safe, food and other essential retailers have benefited from being able to open throughout [the pandemic]," said chief executive Simon Roberts.

"With regional restrictions likely to remain in place for some time, we believe it is now fair and right to forgo the business rates relief that we have been given on all Sainsbury's stores.

"We are very mindful that non-essential retailers and many other businesses have been forced to close again in the second lockdown and we hope that this goes some way towards helping them."

In March, all retail, hospitality and leisure businesses in England were given a business rates holiday for 12 months to help them get through the crisis.

But MPs have criticised supermarkets, who have remained open throughout, for taking around £1.9bn in help while paying dividends to shareholders, calling it an "absolute scandal".

Earlier this month, Mr Roberts defended Sainsbury's decision to pay out £230m to investors at a time when the chain is also cutting 3,500 jobs and vowing to close 420 Argos stores as part of a huge restructuring plan.

Tesco on Wednesday said it would repay £585m after it had been criticised over investor payouts.

In March, the retailer was accused of "whipping up a huge lobbying operation" against a decision not to give its biggest stores in Wales financial help - a decision that was eventually reversed.

Following Tesco's decision to repay, Morrisons subsequently announced it had "brought forward" a decision on rates relief and would pay back £274m.

Marks & Spencer : M&S won't return pandemic business rates relief to UK government

British clothing and food retailer Marks & Spencer said on Wednesday it would not follow Tesco in returning business rates relief it has received from the government to help get it through the COVID-19 pandemic. Tesco, Britain's biggest retailer said it would repay the 585 million pounds it has claimed, putting pressure on rivals to do the same.

Sainsbury's, Walmart's Asda and Morrisons, which have all also claimed relief, all declined to comment.

M&S claimed business rates relief of 83.7 million pounds in its first half to Sept. 26 and can claim for its second half too.

"We are very grateful for the much-needed support government has provided to businesses impacted by the pandemic - including ours," said an M&S spokeswoman.

"It has enabled us to support our colleagues and our suppliers, whilst continuing to serve our customers in what have been incredibly challenging circumstances."

Unlike Tesco, which has been able to keep all its stores open through the pandemic, M&S has seen most of its clothing and home store space closed for extended periods.

In M&S's food division, cafes and hospitality services, which prior to the crisis accounted for about 4% of food revenue, have been closed, while its franchise business, particularly in travel hubs, has been severely impacted.

Trading at M&S's high street and town centre stores has also been hit by the major drop in customer footfall.

M&S reported a loss for its first half and did not pay shareholders a final dividend for the 2019/20 year and has said it does not anticipate paying dividends for 2020/21. Tesco said in October it would pay its shareholders an interim dividend.

Tesco decides to repay business rates relief

The Board of Tesco PLC announces today its decision to repay to the UK Government and the Devolved Administrations the £585m of business rates relief received in respect of the COVID-19 pandemic.

In March, the UK faced an unprecedented situation as the pandemic took hold.

For food retailers, the impact was immediate and potentially disastrous: panic buying, severe pressure on supply lines, major safety concerns and the risk of mass absences from work, culminated in a real and immediate risk to the ability of supermarkets to feed the nation.

We are immensely grateful for the financial and policy support provided to us by the governments of the UK. This was a game-changer and allowed us to ensure customers got access to the essentials they needed.

The decision at the time to provide rates relief to all retailers was hugely important. These funds meant that we had the immediate confidence, in the face of significant uncertainty, to invest in colleagues, and support our customers and suppliers. We are immensely proud of our colleagues for their remarkable efforts during Covid.

Every penny of the rates relief we have received has been spent on our response to the pandemic. Our latest estimate at our Interim Results in October was that Covid would cost Tesco c.£725m this year - well in excess of the £585m rates relief received.

Ten months into the pandemic, our business has proven resilient in the most challenging of circumstances. While all businesses have been impacted - many severely so - we have been able to continue trading throughout, serving many millions of customers every day and although uncertainties still exist, some of the potential risks faced earlier in the year are now behind us. We remain absolutely committed to doing the right thing by our customers, colleagues and all our stakeholders.

We are therefore announcing that we will return to the public the business rates relief received in full. We will work with the UK Government and Devolved Administrations on the best means of doing that.

Ken Murphy, Group Chief Executive:

"Our colleagues have done an exceptional job in responding to the challenges of the pandemic. We have invested more than £725m in supporting our colleagues, putting safety first, more than doubling our online capacity to support the most vulnerable customers in our communities, and hiring thousands of additional colleagues at a time of need. While business rates relief was a critical support at a time of significant uncertainty, some of the potential risks we faced are now behind us.

Every decision we've taken through the crisis has been guided by our values and a commitment to playing our part. In that same spirit, giving this money back to the public is absolutely the right thing to do by our customers, colleagues and all of our stakeholders."

John Allan, Chairman:

"The Board has agreed unanimously that we should repay the rates relief we have received. We are financially strong enough to be able to return this to the public, and we are conscious of our responsibilities to society. We firmly believe now that this is the right thing to do, and we hope this will enable additional support to those businesses and communities who need it."

Note on guidance:

The accounting treatment of the repayment of business rates relief in our Full Year Results has not yet been determined.

Excluding the repayment, our guidance for retail operating profit before exceptional items for 2020/21 is unchanged: we expect it to be at least the same level as 2019/20 on a continuing operations basis.

The cash impact of the repayment of £(585)m is split c.£(535)m in this financial year and c.£(50)m in the 2021/22 financial year.

Business rates relief: How the tax breaks returned by supermarkets could save the hospitality industry

'For hospitality to recover, it needs a bigger boost in the form of a new substantial fund. We need to protect jobs and businesses to come back to after furlough'

The hospitality industry is calling on the government to redistribute some of the millions paid back in rates relief by supermarkets.

Britain's leading grocers, including Tesco, the third largest retailer in the world, have handed back almost £2bn in tax breaks afforded to them due to the coronavirus pandemic.

In March, the Chancellor Rishi Sunak waived business rates to UK enterprises as the pandemic took hold, but supermarkets, deemed absolutely essential, were able to remain open and continue trading.

Now, the food and drink sector has advised ministers that some of the money saved would help protect the industry and preserve jobs.

Hospitality has been one of the hardest hit industries during the pandemic and is currently the only key sector that is partly shut in some regions, and operating under tight restrictions in others.

Kate Nicholls, the CEO of the trade body UKHospitality, said to i: "It would be a big step to protecting our industry. As soon as supermarkets started making the announcements, I raised the idea with ministers.

"It's something that would really support us. Hospitality has been acutely impacted by the pandemic and businesses are in desperate need of support. To keep restaurants and pubs closed is condemning them to sub-economic conditions.

"For hospitality to recover, it needs a bigger boost in the form of a new substantial fund. We need to protect jobs and businesses to come back to after furlough. Hospitality has been asked to bear a disproportionate burden."

Ms Nicholls said tier two businesses are seeing sales down by 60 per cent, and tier two operators by 95 per cent. She said pubs and restaurants, while closed in November, lost around £500m.

"Christmas is usually a lucrative time for hospitality businesses and it would be a time they'd recoup some of the money lost over the year," she said.

"Even with some of the industry open, the sector is losing money – that could come from the rates relief. We need hospitality. It is one of the biggest provider of jobs, and provides new ones quickly. It was one of the key areas in building the economy after the recession, and it needs to be there again this time."

Ms Nicholls is not alone in thinking the cash should be used to regenerate the food and drink sector. The British Beer & Pub Association also said a more substantial relief package should be created.

The trade body applauded the supermarkets' decision and said the money would constitute a "vital lifeline".

The BBPA chief executive Emma McClarkin said: "The derisory £1,000 top-up payment doesn't plug the gaps but the government now has the chance to put in place a proper, comprehensive support package for thousands of brewing and pub businesses, allowing them to continue to serve their local communities and help lead the much-needed economic recovery next year."

William Lees-Jones, managing director of north west brewer and retailer JW Lees, added: "I already have strong interest from other industry leaders to join me in working with the government to ensure the money gets into the hands of the businesses that need it most.

This could be the salvation of the many hospitality venues and the critical supply chain businesses that have been forced to close through the pandemic and are now really struggling in tier two and three areas."

Former Manchester United and England football Gary Neville, who now co-owns GG Hospitality hotels, has also called on the government to do more in an interview with Sky News.

"The whole of the hospitality sector has been devastated. I would split it into two parts, with the restrictions in place we are purely in a defensive position. We need more support, the furlough helped, but there does need to be more economic packages put in place for all hospitality, while we are in these restrictions.

"And even then, coming out of the restrictions, it isn't then going to end, there needs to be support in place – VAT cut helped, the business rate relief helped – there is no doubt – but they need to continue to allow for more help.

"Businesses racked up more debt during this period and I worry about the next 12 months, there needs to be a fair wind with us. We certainly cannot keep moving in and out of tiers, the way in which we are, else there will be complete devastation of people's livelihoods."

The Treasury said to i: "We've been clear throughout the pandemic that businesses should use our support appropriately, and we welcome any decision to repay support where it is no longer needed."

"As with other support schemes, any funds returned will support the ongoing efforts to protect people's jobs and incomes."

John Lewis must seize the business rates lifeline

The high street which emerges on the other side of the pandemic will be a significantly poorer and less diverse place

You have to worry a bit for John Lewis. As Debenhams liquidates and then evaporates from the high street after going bust for the second time in a year, our mutual friend is now the last of the big department store chains still standing.

True, after it crashed in 2018, a good part of House of Fraser has been resurrected as part of the Mike Ashley empire. Yet by his own account, the Sports Direct mastermind regretted buying the business even before coronavirus arrived. He has been closing stores, getting into rent battles with landlords, and signalling that the end of the business rates holiday in April casts a shadow over the survival of House of Fraser.

It will probably be a tricky moment for John Lewis, too. The way in which the partnership is breaking with the supermarket pack to cling to tens of millions of pounds of pandemic tax relief is a sign of the massive financial pressure it is under.

Almost all major grocers quickly fell into line last week after Tesco said it would pay £585m in business rates to the Exchequer. Regardless of how ill-targeted the relief, it is impossible to justify such a subsidy when your business selling food and other essentials has not suffered under lockdown. In fact, it has thrived.

Yet John Lewis and its supermarket arm Waitrose are having a go. “The outlook remains incredibly uncertain and government support remains crucial to help us navigate the crisis,” it said as it confirmed it would not hand back any portion of the £51m in business rates relief it received at the last count, at the end of July.

Of course, John Lewis department stores that have been forced to close in lockdown are entitled to a business rates holiday. Argos, too. Yet Sainsbury’s has agreed to pay back to the taxpayer the relief handed to its supermarkets.

It’s a safe assumption that John Lewis would not be doing this if it did not really need the cash. In the pandemic, it has also borrowed £300m from the Bank of England’s emergency loans scheme for big companies, taken out £150m in new bank loans, renegotiated covenants on existing debts, and sold Waitrose property for £135m.

Leaning on the business rates holiday must also be a deeply uncomfortable position for Dame Sharon White, John Lewis’s chairman. She had a long and celebrated career in the Treasury and was attracted into commerce by John Lewis’s strong social purpose as a mutual. In this long winter before mass vaccination, its only purpose must be survival.

At least Waitrose’s unpaid business rates will not create profits to be paid out as dividends to shareholders (or bonuses to staff). They will, however, help pay the interest on two publicly traded bond debts of £300m each, issued in 2010 and 2014 to fuel expansion in bricks-and-mortar retail, even as smartphones and the mobile internet began to transform shopping habits.

So, through no fault of the current John Lewis management, some business rates relief will probably end up in the pockets of hedge fund managers, which from a taxpayer’s point of view is probably not ideal either.

White has recognised a John Lewis that survives the decline of the high street and the pandemic must change rapidly and radically, and create the financial capacity to invest more in its online growth.

This applies to both Waitrose and the partnership’s department stores. The eight closures announced in summer seem unlikely to be the end of its retreat from traditional stores.

As a brand, John Lewis has none of the whiff of faded Nineties chic that hangs over Debenhams and Arcadia brands, which offers important hope. John Lewis is having a heart attack and needs an electric shock and a strict exercise regime. Dorothy Perkins, meanwhile, appears to have an irreversible degenerative condition.

Regardless, the past week of retail carnage should leave nobody else in any doubt that the high street which emerges on the other side of the pandemic will be a significantly poorer and less diverse place. The forces at work are simply irresistible.

With each collapse, the TV cameras are dispatched to gather vox pops in market towns where the demise of a Debenhams or even a tired Arcadia store such as Burton or Dorothy Perkins would leave a big hole.

There are often bewildered howls of loss from older shoppers and shrugs of indifference from young consumers who have got the Amazon, Asos and Boohoo apps installed on their smartphone home screens. Like it or not, the future belongs to them.

Wealth tax report gives 'political cover' for raising existing taxes

New levy would be politically difficult for Conservatives to introduce

An influential report proposing a one-off 5 per cent wealth tax in the UK could pave the way for broader increases in inheritance and other capital taxes, financial advisers have warned.

They were responding to the publication this week of a study by a widely-respected Wealth Tax Commission, led by academics at the University of Warwick and the London School of Economics, which suggested that a one-off 5 per cent levy on assets, including main homes, could raise £260bn to repair the country's pandemic-ravaged public finances.

The advisers said that while such a tax would be politically difficult for a Conservative government to enact, the proposal could help pave the way to raising existing UK taxes on assets, notably capital gains tax as well as inheritance taxes.

Chancellor Rishi Sunak has launched a review of capital gains tax, prompting speculation that rates might be raised to close the gap with income tax rates.

"It is difficult, although not entirely impossible, to imagine such a radical proposal [as a new wealth tax] being put forward by the government," said Rachael Griffin, tax and financial planning expert at Quilter, the investment management company.

"What this report may do is soften the path for tax increases in the existing system. Were the chancellor inclined to raise more revenue from existing taxes on capital, such as capital gains tax and inheritance tax, he now has some political cover, since he can point to the alternative being a £260bn raid on personal wealth."

Richard Jameson, partner at accountancy firm Saffery Champness, added: "The future of tax is up for debate and solutions are needed. The Treasury committee is reviewing tax after coronavirus and the Office of Tax Simplification recently [reported] on both capital gains tax and inheritance tax. It seems clear some change is on the horizon, perhaps starting in the 2021 Budget."

Who's afraid of a wealth tax?

While Mr Sunak and prime minister Boris Johnson have both previously dismissed the idea of a wealth tax, the country faces "unprecedented times", said Mr Jameson. "It is widely acknowledged that tax rises are going to play a part in rebuilding the public finances following the Covid-19 crisis."

The Wealth Tax Commission's report suggested a levy could apply to an individual's assets above £500,000 (or £1m for couples), including pensions and the primary home — minus any debts such as mortgages.

This would hit about 8m UK residents or approximately 17 per cent of the adult population, including "non-doms" and recent emigrants. People would pay in five equal instalments over five years, based on the market value of their assets at a specific date.

The inclusion of the main home would mean people who had benefited from rising property prices in recent decades would be hit, exposing many middle-class professionals to the possible levy.

"In many places, £500,000 gets you no more than a small one-to two-bedroom flat," said Mark Florman, chairman and chief executive of Time Partners, an investment advisory firm. "I fear this tax will once again fall on the middle earners and those that have saved hard for their retirement."

However, Robert Palmer, executive director of Tax Justice UK, a campaign group, argued the proposal showed government had alternatives "other than hiking taxes on struggling middle earners".

"Those with the broadest shoulders need to take their fair share of the burden as we move forward," he said.

Meanwhile, advisers warned some farmers, pensioners, business owners and property owners who were "asset rich but cash poor" could struggle to pay.

The Wealth Tax Commission report suggested such people be given more time, and that tax levied on pension wealth be paid out of the pension lump sum on retirement. But some critics argued this would not be enough to stop people being pushed into debt.

"There is a serious question around how someone pays a wealth tax if they do not have the immediate cash liquidity," said Nimesh Shah, chief executive at accountancy firm Blick Rothenberg. "It is worrying that a new form of tax could force people into hardship and a serious rethink would [be] needed."

Jo Bateson, partner at KPMG, warned a lack of relief on business assets would have a "significant" impact on family business owners. "This could mean that the business would need to fund the wealth tax, which would have implications for investment and growth," she added.

Farmers might also lack cash to pay, said Sean McCann, chartered financial planner, at NFU Mutual. "Struggling farmers could be unintended victims of this proposed tax."

Analysis reveals true cost to retailers of business rates relief payback

WHO IS BUSINESS RATES PAYBACK COSTING THE MOST?

SUPERMARKET		GROCERY SALES	SALES INCREASE	BUSINESS RATES RELIEF	COST OF PAYBACK
business rates payback (y/n)		12 weeks to 29 November 2020 (£m)	year-on-year percentage	12-week period (£m)	as a percentage of sales
M&S	NO	1,003	10.0	40.2	4.0
Sainsbury's	YES	4,035	14.6	114.9	2.9
Morrisons	YES	2,842	16.5	64.4	2.3
Waitrose	NO	1,422	15.5	27.7	2.0
Asda	YES	3,628	10.6	68.5	1.9
Tesco	YES	7,241	13.5	135	1.9
Lidl	YES	1,615	14.5	24.9	1.5
Iceland	NO	706	21.1	10.4	1.5
Aldi	YES	2,044	8.3	25.2	1.2
Co-op	NO	1,547	11.3	16.2	1.1

Source: The Grocer/Kantar/Altus Group **Notes:** business rates payback as of 10 December 2020

The scale of the sacrifice supermarkets made in handing back business rates relief has been put in perspective by new analysis.

The value of business rates relief over 12 weeks has been compared with grocery-only sales figures from Kantar for the same period for the 10 biggest supermarkets.

It has made it possible to calculate the cost of refunding business rates relief as a percentage of grocery sales for each.

The result shows that, while Tesco led the charge, the business rates payback has been far costlier to other retailers who followed suit.

The 12-week business rates figures have been drawn from retailers' own published numbers, along with estimates provided by real estate advisor Altus Group.

Of those retailers to announce a payback, Sainsbury's took the hardest hit as a percentage of sales, the numbers show. It will cost the supermarket 2.9% of its sales. Tesco, meanwhile, sacrificed 1.9% of its sales in the same period.

Among retailers to have not announced a business rates payback, M&S comes top as a percentage of grocery sales.

However, M&S's business rates figure includes many large stores where clothing and home departments were closed during the lockdown. So the percentage cost of refunding rates payable by the food business alone would be lower. M&S has ruled out refunding the relief because food stores in city centres and travel hubs were badly hit.

The table also includes the percentage year-on-year rise in grocery sales seen by each of the supermarkets, revealing Iceland to have the biggest uptick, of 21.1%.

"First of all, this calls out that M&S is an outlier, which I think is right," said Shore Capital analyst Clive Black. "It's got so many stores that are city-centre full-line operations and also in travel hubs, which are effectively closed or materially down. I don't think there is huge pressure on M&S [to return business rates].

"The interesting one is Iceland. They have exceptionally strong sales in the quarter. Frozen food alongside alcohol are the two standout categories in terms of demand at the moment and Iceland hasn't decided to reveal its hand [on rates refund].

"The irony is Malcolm and Richard Walker are vocal all the time, and the silence has been stunning.

"It's been trading well but it's got considerable debt. You have to ask, can Iceland afford to pay it?" he added.

Black said Tesco "covered its arse" over shareholder dividends by being first to announce a payback, causing "deep industry rancour".

The business rates bust-up as retailers hand back cash

Supermarkets and other stores that had come under fire for accepting a business-rates holiday have given the money back. Matthew Partridge reports

Until last week UK supermarkets had behaved like "brothers in arms", says Sam Chambers in The Sunday Times. They "uniformly" rebuffed calls to return the "contentious £2bn-plus tax windfall" that they had received from the Treasury's 12-month business rates holiday, "despite continuing to pay dividends". However, last week Tesco declared that it would return the £585m it had been given. This triggered a "domino effect", with Morrisons, Sainsbury's, and B&M following suit.

Despite most of the supermarkets now pretending that they have been considering returning the cash "for some time", it was only Tesco's action that forced their hand, says Ben Marlow in The Daily Telegraph. Even Tesco doesn't really deserve any praise since its decision came as a result of a "fierce and sustained" public backlash.

Of course, the supermarkets maintain that "massive uncertainty" combined with the fact that they were open during the pandemic in "difficult circumstances" justified the subsidy. However, the tax break was clearly intended for retailers and firms forced to close their doors.

Probably the most "gratuitously undeserved" handout, however, went to B&M, says Nils Pratley in The Guardian. It sells some food, so it qualified as an "essential retailer" and stayed open, but its shelves are mostly filled with "toys, games, furniture, stationery and rugs". With most of its non-food competitors "ruled offside", B&M had the "freedom of the inessential pitch", so it reported "a 30% improvement in like-for-like sales in a six-month period" and a "near-doubling of top-line profits to £296m". The decision to give B&M £38m of relief on rates looks "obscene".

As for Tesco, its decision to break ranks wasn't as generous as it might appear, says Bryce Elder in the Financial Times. While Tesco received the most in absolute terms, the support mattered more to J Sainsbury, whose Argos chain was classed as non-essential. The amount that Sainsbury has had to return "equates to nearly 10% of its market value, versus less than 3% for Tesco". A cynic might conclude that Tesco's motivations "have an element of game theory", in that it has "invited mutual harm from which it expects to suffer the least".

Meanwhile, you can see why John Lewis, which owns Waitrose, is "breaking with the supermarket pack to cling to tens of millions of pounds of pandemic tax relief", says Christopher Williams in The Sunday Telegraph.

Under "massive financial pressure", the group has borrowed £300m from the Bank of England's emergency loans scheme, taken out £150m in new bank loans and sold Waitrose property for £135m. John Lewis' financial problems underline the fact that the post-pandemic high street "will be a... poorer and less diverse place".

The Wealth Tax Commission final report

On 9 December 2020, a group of academics and tax professionals led by Arun Advani of Warwick University, Andy Summers of LSE and the barrister Emma Chamberlain, OBE, known as the "Wealth Tax Commission", published a much-anticipated report of their study into the possibility of a UK wealth tax. This article considers the main recommendations of the report, the likely political response and the implications for taxpayers.
Background

There is a close link between times of economic crisis and discussion of new taxes on wealth. A UK wealth tax was first proposed in the aftermath of the Second World War, and first considered as Government policy by Harold Wilson's administration in the mid-1970s against a backdrop of high inflation, rising unemployment and frequent large-scale strikes. At that time the policy was abandoned in the face of opposition from the Treasury.

After a long hiatus the idea has picked up momentum in recent years (along with increasing scrutiny of wealth inequality) and there was a strong indication that the Labour Party were considering the idea in 2019 (although it was not explicitly mentioned in their manifesto), coinciding with supportive analysis from a number of think tanks. It receded somewhat from view following Labour's defeat in the subsequent general election, but concern about the state of public finances following the Covid-19 pandemic has prompted a fresh wave of speculation about potential new sources of Government revenue, including a wealth tax.

On an international level, while the introduction of wealth taxes was popular in the 1970s and 80s, few such taxes have stood the test of time. A combination of high administrative complexity and low revenue yields has seen the number of OECD members imposing annual net wealth taxes fall from 14 in 1996 to just three today. One-off taxes are less common, but there are three notable examples in recent times: a 0.6% levy on bank deposits in Italy in 1992, a 47.5% levy on bank deposits over €100,000 in Cyprus in 2013, and a 0.6% levy on private pension funds in Ireland spread between 2011 and 2015.

As in the UK, international speculation about potential measures to address shortfalls in public finances resulting from the Covid-19 pandemic has in many cases included discussion of a wealth tax. Publication of the Wealth Tax Commission's report comes hot on the heels of the first actual announcement of a new wealth tax, in Argentina, where a one-off levy at rates up to 5.25% was passed into law on 4 December 2020.

The main recommendations

The report strongly endorses a one-off wealth tax over an annual tax. A one-off tax would require assets to be valued only once and if a comparatively high rate was used the administrative costs would represent a lower proportion of receipts than on a lower rate charged annually. The authors project that a flat rate of 5% on assets over £500,000 on an "all-inclusive" tax base could raise at least £260bn.

The report suggests that, to minimise opportunities for avoidance, any one off wealth tax should be introduced without prior warning (or perhaps retroactively), since without any knowledge of what might be taxed – or when – taxpayers would have no opportunity to rearrange their affairs or to cease UK residence in advance of the effective date of the tax.

Although the report does not consider an annual wealth tax impossible, it does not recommend one. The authors acknowledge that avoidance and administrative issues would be far more burdensome than for a one-off tax, and suggest that in the long term, reform of existing taxes on wealth (such as inheritance tax and capital gains tax) would be more straightforward and target the same taxpayer group.

Having embraced a one-off tax (and suggested a flat rate of 5% or progressive rates from 3-8%), the authors go on to propose that:

- the tax should be levied on the worldwide assets of any individuals who were UK resident on the effective date, regardless of domicile. It could also be levied on those who were not UK resident on the effective date, but who were UK resident in at least four of the previous seven tax years (so even on those who had left the UK in the previous three years). The rate could be tapered for those who had become UK resident in the three years before the effective date, such that no charge would apply to those who arrived in the same tax year as the effective date;
- all assets should be included in the tax base, including main homes, pensions, businesses, farms and personal items with a value over £3,000;
- assets held in trust would give rise to a tax liability for the trustees, including non-UK trustees, (failing whom on the settlor or, in extremis, the beneficiaries) if either the settlor or any beneficiary was UK resident (based on the above test) on the effective date. In the case of discretionary trusts with a non-UK resident settlor and both UK-resident and non-UK beneficiaries, the value of the trust would be apportioned between beneficiaries equally, with tax levied only on the share attributed to the UK-resident beneficiaries. A life tenant would be treated as owning the whole of the trust fund for this purpose, but any contingent interests (including contingent interests under fully discretionary trusts) would not be taxable;
- the tax should also be levied on UK real estate assets of non-resident individuals or trustees, even if owned indirectly through companies (reflecting the "property-rich" provisions for inheritance tax on non-domiciliaries). Controlling interests in UK companies might also be within the scope of tax for non-residents;
- assets should be valued at "open market value" based on a hypothetical transaction with a willing buyer and seller negotiating at arms' length; and
- tax should be payable in instalments over five years with interest but without penalties (with tax on pensions able to be deferred until retirement or earlier drawdown) to alleviate issues with liquidity.

A number of points may be made about these proposals.

First, from a fiscal perspective the problem facing the UK Government is not the size of the national debt as such. Inflation and interest rates are low and, despite the Covid-related spike in borrowing, the UK's debt-to-GDP ratio – although much higher than it was – is not high by international standards and, assuming interest rates remain low, looks manageable. Rather, the problem is the ongoing deficit that may result from higher spending combined with lower tax receipts in a weakened economy.

A one-off tax, however much revenue it raises, will not address this ongoing deficit. Since even the Wealth Tax Commission does not have much enthusiasm for an annual wealth tax (acknowledging that it would have significantly less revenue potential) it is not clear that a wealth tax of any kind offers a meaningful solution to the UK's fiscal dilemma. With that in mind, the primary policy effect of a wealth tax would be redistribution. It is not the purpose of this article to offer a view on the merits of redistribution of wealth, but clearly the distinction between that and pure fiscal consolidation is a significant one.

Another issue is political. While the report cites polling data suggesting public support for a wealth tax in abstract form, it is not clear that such support would hold up in the face of detailed proposals, particularly with a threshold as low as £500,000 and the inclusion of main homes and pensions. Many people with a net worth over £500,000 may not consider themselves to be especially wealthy, and a wealth tax may be vulnerable to the "inheritance tax effect", whereby the tax is perceived as threatening and unfair even by people with little or no exposure to it. If a 5% "one-off" tax were payable in instalments of 1% every five years, it may begin to resemble an annual tax – and invite a temptation to impose a new "one-off" tax in, say, five years' time. The report acknowledges that annual wealth taxes are fraught with avoidance, valuation and administrative difficulties and emphasises the importance of avoiding such a "mission creep" if the Government is to maintain the credibility (and thus enforceability) of the tax.

While the tax may represent a bonanza for valuation professionals, few other taxpayers are likely to welcome the requirement to identify the open market value of all their assets. The report suggests the use of "banded" valuation for lower value assets (so that a taxpayer would only have to value such assets within an approximate range), which may assist somewhat at the lower end, but would not avoid the need for some expert input in each case. The report also does not offer any solution to the problem of hard-to-value assets such as private company shares, art or intangibles such as intellectual property – it simply argues that on a one-off basis the costs of obtaining such valuations would not be disproportionate to the revenue raised. This simple argument belies the complexities of valuing these assets, and in particular the problem that there are many potential approaches to determining "open market value" which may give rise to starkly different results for different taxpayers.

The inclusion of business assets also creates a potential distortion. If tax is levied on shareholders on the open market value of a business, the cost of that tax may well need to be extracted from the business before any tax can be paid. Since tax will generally be due on distributions from businesses, the effective rate of tax on business assets would in many cases be much higher than 5%. The effect would be that wealth invested in businesses would be taxed more harshly than wealth held in cash or passive assets. In addition, the need to accelerate business distributions (and/or to reduce investment or take on more debt) to pay both wealth tax and the additional tax due on the distribution to pay the wealth tax could have knock-on economic consequences beyond the headline cost of the tax.

Likely political response

The Chancellor, Rishi Sunak, has reportedly stated that there is not now and never will be a time for a wealth tax. It is therefore very unlikely that the current Government will introduce a wealth tax in any form, let alone one as dramatic as that proposed in the Wealth Tax Commission's report.

The Labour Party may be more interested in the proposal. Shadow Chancellor Anneliese Dodds advocated "looking at" a net wealth tax in July 2020, although the Party does not appear to have pursued that option any further thus far. The present Labour position seems to be that it is too early to introduce tax rises to pay for the pandemic, but it is at least possible that a wealth tax is something they will consider as we approach the next election. If the public finances are still in difficulty at that time, a wealth tax may be seen as a relatively voter-friendly approach to tax hikes, though it is difficult to speculate now about what form such a tax might take.

The Government is currently in the process of repealing the Fixed-term Parliaments Act, so we cannot say with certainty when the next election will be. That said, it is not expected before 2024, with late Spring and early Autumn traditionally the most popular dates. It is too early to tell whether a wealth tax will have gained any traction within the Labour Party by then. The more time that passes between the end of the Covid-19 pandemic and the announcement of a wealth tax, the more difficult it will be to justify a new tax as a means of paying for the pandemic, at least in PR terms. This means that if Labour is to introduce a wealth tax, it would likely be sold either as an exercise in redistribution of wealth or as a general means of reducing the national debt, rather than a "pandemic tax" per se.

It is however worth noting that if a new government introduced a one-off wealth tax along the lines proposed in the report, anybody who is currently UK tax resident would potentially be within the scope of the tax even if they were not UK resident next tax year.

Possible alternatives

If the current Government will not introduce a wealth tax, it naturally raises the question of what tax rises they might introduce. If the objective is to raise significant revenue on an ongoing basis, it is likely that changes would have to be made to one or more of the taxes the Conservative Party's 2019 manifesto pledged not to raise: income tax, national insurance contributions, or VAT.

The Wealth Tax Commission estimate that to raise the £260bn they project would derive from their proposed wealth tax over five years, the Government would have to raise all income tax rates by 6p in the pound (giving a top rate of 51%), raise national insurance contributions by 8p in the pound (giving an effective maximum rate of 20%), or raise VAT by 6p in the pound (to a standard rate of 26%). Changes to the rates of these taxes would have the potential to raise money over a much longer period than five years, so the comparison is not strictly a fair one. In any event, such dramatic changes may be more likely than a wealth tax but are nonetheless not particularly likely, at least in the short term.

The Chancellor is known to be interested in narrowing the tax gap between employed and self-employed workers, which could see a rise in national insurance contributions for self-employed workers, and/or a rise in dividend rates of income tax to be closer or equal to the rates on employment income.

Another possibility is the introduction of a "solidarity tax" – an additional levy on income that is nominally a different tax (so allows the Party to claim to be honouring its pledge not to raise income tax) but takes effect as an increase in income tax and can be cosmetically tied to the pandemic.

If any of these large changes are brought in, they are likely to be accompanied or preceded by a package of reforms to other taxes designed to give the appearance that the most well-off in society are paying their share. There has already been discussion about raising the rate of corporation tax (though the Government will not want to stifle any post-pandemic economic recovery) and considerable press attention is now focusing on reforms to capital gains tax.

These reforms could include an increase in the rates of capital gains tax (alignment with income tax at up to 45% has been mooted, but a return to the 28% rate introduced in 2010 may be more likely), but also abolition of business asset disposal relief (formerly Entrepreneur's Relief), and replacement of the base cost uplift on death with something more akin to rollover relief.

Finally, the ONS has estimated that 35% of all wealth in Great Britain derives from real property. An overhaul of council tax, introduction of a mansion tax, and (less likely) the limited imposition of capital gains tax on primary residences may all be under consideration. Some of these options may share the difficulties with valuation of a wealth tax, but all are likely to be easier to implement and less politically explosive for the Conservative Party, so must be considered more likely.

The Wealth Tax Commission's report itself argues that reform of existing taxes would be a better route forward that an annual wealth tax. In particular, the authors criticise the asymmetry between taxation of income and capital gains and recommend both alignment of capital gains rates with income tax and abolition of the capital gains base cost uplift on death. They also draw attention to proposals to abolish business and agricultural property relief from inheritance tax and the Mirrlees Review's suggestion of a recipient-based inheritance tax with a flat rate across all lifetime gifts and inheritances over a certain threshold.

SCOTLAND

Having a Pied-À-Terre in New York City May Result in Higher Real Property Taxes

Identical bills are currently in committee in the NYS Assembly and Senate (S. 44, A.B. 4540). These bills (hereafter, the “bill”) if enacted will raise the real property tax in New York City on residential properties that are not the owner’s primary residence. This is commonly referred to as a “pied-à-terre tax.” Whether the bill will become law, as is or with amendments, is uncertain at this time. However, some believe that a version of the bill will pass both the house and assembly with a veto-proof Democratic majority (i.e., even if Governor Cuomo would be inclined to veto the potential legislation, the state legislature could override the veto).

If the current version of the bill is enacted, the tax will become effective starting with the 2021-2022 property tax year. As proposed, the pied-à-terre tax would:

Impose an annual property tax of 0.5% to 4% on one-, two-, or three-family residences with $5 million or higher of fair market value determined based on the five-year average market value (using a comparable sale-based valuation method as determined by the Department of Finance). The tax would apply to the fair market value above $5 million.

Impose an annual property tax of 10% to 13.5% on residential condominium and cooperative units with assessed values of $300,000 or higher. The tax would apply to the assessed value above $300,000 as determined by the city assessor. Assessed values are typically lower than the property’s fair market value.
Exemptions

The proposed legislation includes exemptions that are applicable to the following circumstances:

- The property or dwelling unit is the primary residence of at least one owner;
- The property is the primary residence of the parent or child of at least one owner;
- The owner of the condominium or co-op has obtained an appraisal report certified by a state-certified real estate appraiser or authenticated by a state licensed real estate appraiser, within the prior three years, showing that the residential property or dwelling unit has an appraisal value of less than $5 million; or
- The property is rented on a full-time basis to tenant(s) who use the property as their primary residence.

The Berdon State and Local Tax Team is monitoring the legislative status of the pied-à-terre tax Bill and will provide updates accordingly.

Leaders' plea for business rates relief to be handed back to Aberdeen council

Council co-leader Jenny Laing has asked for rates relief to be repaid to the council, rather than the Scottish Government.

City leaders have urged major retailers in Aberdeen to hand back millions of pounds in business rates relief to the council rather than the Scottish Government.

Earlier this month a string of stores – Asda, Tesco, Sainsbury's, Morrisons and B&Q – announced they would return payments given to all businesses because of the Covid-19 pandemic.

Officers at Aberdeen City Council have calculated the sum due to be repaid in Aberdeen alone stands at more than £9 million.

Under current rules, the money would be paid back to central governments rather than councils.

However, local authority leaders have written to the stores and Holyrood ministers asking if the funds can be redirected to the Town House – and claim it could be used to support other struggling businesses in Aberdeen.

Jenny Laing, the co-leader of the council, said: "Now that supermarkets and other retailers have committed to repaying the business rate relief they received from the UK and Scottish Government we intend to write to the Scottish Government and the retailers concerned to request that they repay the money direct to the city council rather than central government.

"Our officials have calculated that there is £9.1m of business rate relief to be repaid from retailers based in the city and we believe it would be hugely beneficial to Aberdeen if theses business rates could be retained by the council and fully utilised to support other business in the city which have been detrimentally impacted by Covid-19."

The council leaders' position is they are better-placed than government ministers to redirect the money to where it is most needed.

Tesco announced earlier this month it would repay its business rates relief.

Tesco chairman John Allan said the chain would repay its business rates relief as it is "financially strong enough" to do so, while Asda chief executive and president Roger Burnley said the effect of the pandemic "will be much more long-lasting" for other industries and businesses.

Retail bosses have pledged to work with governments in each of the four UK nations to assess how the money can be best put to use.

The Scottish Retail Consortium (SRC), which represents many of the country's biggest retailers, suggested the returned cash could be used to extend rates relief into the next financial year, or be invested in schemes to entice customers.

Responding to the council's position on behalf of the retailers, Ewan MacDonald-Russell, SRC's head of policy, said: "The unexpected fiscal windfall derived from some essential retailers repaying business rates relief should be redistributed within Scotland's retail industry.

"These funds could help government to provide early clarity over continued rates relief for the coming year, and a short term stimulus to boost consumer confidence and spending – perhaps through a high street voucher scheme like Northern Ireland is implementing.

"Pandemic-induced restrictions and economic downturn are weighing on consumer demand, and a high street voucher scheme could help get the economy moving again and give a much needed shot in the arm to shops and other consumer-facing firms like eateries in the leaner months early in the New Year."

Sainsbury's is also among the retailers handing back money.

The cost to councils of the rates relief scheme has already been reimbursed by the Scottish Government.

A Holyrood spokesman said: "We commend the retailers which have committed to reimburse the public finances for the support received through rates relief. Every penny provided to us will be invested in our recovery from Covid-19 and will be used to support those who have been hardest hit by the pandemic. The Scottish Government has already fully funded councils for the cost of the relief.

"We are clear that any revenues voluntarily paid by ratepayers in Scotland should remain in Scotland and not be withheld by UK Government or councils."

Taxes on rich too low, says Scottish Land Commission

A new council tax band targeting Scotland's most affluent people has been proposed by a government quango.

Potential changes are being examined by the Scottish Land Commission (SLC). It also proposes increased levies for farmers and a land value tax, which would hit private estates.

In the SLC's report, Land and Property Taxation in Scotland, it admitted reform could be "politically difficult due to creating a mix of winners and losers".

The latter would include some band H households. They already pay the highest rate but would be moved into a new, more expensive category. Alternatively, all those in higher band homes, including many properties in Edinburgh, Glasgow and Aberdeen, would see taxes rise, with cuts for lower bands.

Critics fear the impact on rural communities of agricultural taxes or a land value tax, with the cost based on rental value.

Jamie Halcro Johnston, the Scottish Conservative rural economy spokesman, told The Mail on Sunday: "When money is tight for so many families, the last thing they need is being hit with higher council tax bills. Our rural economy has been devastated by the pandemic. These plans show a deep lack of understanding of the struggles our rural economy is dealing with."

The SLC was set up by the Scottish government to look at land ownership across the country. It argued that the council tax system was regressive.

A Scottish government spokesman said the report "aligns with our long-term commitment to land reform, to create a fairer and more productive approach".

Land Value Tax back on the political agenda

THOSE WHO actively work the land to produce food should not have anything to fear from 'political agendas' relating to land ownership.

So said NFU Scotland's president Andrew McCornick in reaction to the publication this week of a new report looking at 'options for reform' of Scotland's land property taxation system.

However, there may well be cause for nervousness over the direction of the research, which was ordered by the Scottish Land Commission to examine how the benefits of increasing land values might be distributed 'to benefit society as a whole'.

The report – 'Land and property taxation in Scotland: Initial scoping of options for reform' – identifies a range of ways in which taxes have the potential to help achieve long term outcomes for land reform, such as tackling inequality, expanding the supply of land for housing and reducing the amount of vacant and derelict land.

Publication of the report coincides with the setting up of a new Expert Advisory Group on Tax on Land and Property to advise the Commission and shape the recommendations that it will put to Ministers in late 2021.

The report suggests that the Scottish Government's goal of inclusive economic growth has been given added urgency by the disproportionate impact of Covid-19 on the most deprived areas of Scotland. Currently, just 12% of all public sector revenue across reserved and devolved taxes are raised through taxes fully or partially levied on land and property.

Speaking about the report, Lorne MacLeod, Commissioner and Chair of the Commission's newly established tax expert advisory group said: "Land is our most valuable asset and we need to be willing to rethink how our tax system operates to make sure we are making the most of it for everyone.

"Taxes on land, and transactions involving land, are widely used around the world to raise revenues, reduce inequality and promote more effective land use and management. Taxes on land and property have the potential to stimulate behaviour change to incentivise a more productive use of land as well as disincentivising behaviour relating to land use and ownership that is not delivering wider public benefits," said Mr MacLeod.

"They also provide an important source of revenue to finance public services and infrastructure. Scotland will have to ensure best possible use of its resources, including land, to support the recovery."

NFU Scotland president Andrew McCornick commented: "I am very concerned about the direction of travel in relation to taxes on ownership and inheritance of land. It is worrying for industry that the focus of the report seems to be on land ownership rather than how land is being used.

"Those who are actively working the land to produce food should not have anything to fear from political agendas relating to scale or concentration of land ownership. The system of reliefs that are in place, like Agricultural Property Relief, currently ensure that family farms can be passed on in families. These ensure continuity and effective business planning and must continue," insisted Mr McCornick.

"Our view remains that a land tax is entirely unacceptable and this blunt tool would jeopardise the sustainability of businesses and the ability of industry to meet food and drink targets.

“That said, we fully recognise the role that taxation could have to play in a healthy and vibrant tenanted sector," he conceded. "There are examples of other countries – Ireland is highlighted in the report – where it has been possible to influence behaviour to provide more opportunity for the next generation to get into farming which we could learn from. However, the politics must fit and ultimately landowners need certainty and an assurance that their course of action is low risk.”

Speaking from landowners' body Scottish Land and Estates, chief executive Sarah-Jane Laing said: “We’ll need to reflect on the detail of the report but we continue to urge the Scottish Land Commission to consider taxation in the round, with full understanding of the potential economic impact and any unintended consequences.

“The removal of Agricultural Property Relief would have the potential to enact the break-up of family farms across Scotland which would be a hammer blow to the rural economy," she warned. "As the report notes, the revenue that could be raised by removal of Agricultural Property Relief is relatively small as a proportion of UK tax take so there appears to be little merit in the proposal from a fiscal point of view. SLE represents family farming businesses that over many generations have led the way in not only quality food production but also providing positive environmental and economic outputs for Scotland – something which would be placed at risk by the relief’s removal."

Ms Laing noted that a land value tax had been debated for many years but had not been taken forward by any administration because of the potential impact it might have on not just rural Scotland, but the whole of the country.

“In a rural context, these taxation proposals would have an effect across the entire Scottish countryside, not simply on ‘estates’ or ‘large landowners’," she cautioned. "It could have an impact on delivering local communities’ aspirations and it would discourage those providing investment, from housing developers, to forestry businesses and farmers. Rural businesses, which invest heavily across Scotland, are already subject to a very well established and complex tax regime and it should be pointed out that land value taxation is, in effect, already in existence in the form of capital gains tax, inheritance tax and developer contribution when planning permission is granted.

“We believe the impact of any policy change of this magnitude should be considered in terms of our recovery from the economic crisis and not simply be measured in terms of the delivery of political land reform objectives. It should also be noted that many of the tax functions highlighted in the report are reserved matters and would have knock-on impacts for the rest of the UK farming.”

Business rates relief in Scotland dependent on ‘yet more money from the Treasury’

Ministers are "very keen" to extend business rates relief in Scotland but any decision would be subject to an equivalent policy in England freeing up extra cash, the finance secretary has said.

Kate Forbes told MSPs any deal to relieve pressure on struggling businesses would be contingent on the UK Government announcing similar plans south of the border because it would not be “affordable” under the Scottish Government’s current budget.

Business leaders in the north-east revealed on Tuesday plans to pursue a region-specific rates deal, to countenance out-of-date valuations in Aberdeen and Aberdeenshire, after Holyrood voted to delay a revaluation of business rates by an extra year to 2023.

Existing rates are based on valuations completed in 2015, before the oil and gas downturn, and transitional relief set up to mitigate the disparity between rateable and real values is to expire at the end of this financial year.

The finance secretary was asked during a Budget update to the Parliament on Wednesday whether she would consider extending the relief for a further year.

Ms Forbes said: "I've been very clear publicly that, in terms of next year's budget, I am very keen to extend some form of rates relief but that it's subject to an equivalent policy in England that then generates consequential funding because it isn't affordable within the Scottish Government's fixed budget to do that.

"So our desire is to urgently set out a plan to support businesses through non-domestic rates but it does require early notice from the UK Government of what their intentions are."

During a separate question from Aberdeen Donside MSP Mark McDonald, the finance secretary appeared to suggest Aberdeen City Council should use discretionary cash set aside for the Covid-19 pandemic to mitigate the "particular challenges" in the city.

After being asked whether she would look at "local flexibility around rateable values" to ensure businesses in Aberdeen are not left behind, Ms Forbes said it is a "very important point, that local economies differ across the country."

"That's why the discretionary funding is so important, that central government will try to target support at the sectors that are hardest hit," she said.

"But it's important that local authorities have the ability to tailor their own schemes in response to the economic conditions and that's why, well, I hope Aberdeen City Council will be able to use the discretionary funding for the particular challenges in Aberdeen."

'Yet more money from the Treasury'

Scottish Conservative North East MSP Liam Kerr hit out at the comments and said it is already within the Scottish Government's power to solve the issue.

He said: "For years now, we have been asking for a fair deal on business rates for the north-east. The SNP and Greens voted against us to delay the next revaluation.

"Rather than produce something positive for councils, Ms Forbes is looking for yet more money from the Treasury. That's the same Treasury that sent £8.2 billion extra to help Scotland fight Covid, with another £1.3bn to bolster next year's budget.

"Rates relief is within the SNP's gift to fix now."

A Treasury spokesman said: "We have provided an extensive package to support Scottish businesses since the start of this crisis, including the furlough scheme currently protecting more than 123,000 Scottish jobs, nearly 80,000 government-backed loans worth over £2.8 billion, tax deferrals and eviction protection.

"We are also providing £2.4 billion of additional funding to the Scottish Government in 2021-22, which can be allocated in whatever way it decides."

One-off tax grab on property values proposed

Millions of people could see their main homes, not just additional properties, taxed as part of a one-off "wealth tax", experts have warned.

Rather than increasing income tax or VAT, the government should instead look at a tax on people who have assets worth £500,000 or £1m for a married couple, according to a report from the Wealth Tax Commission.

Taxing those households an extra 1% on their assets could raise £260bn over five years, the Wealth Tax Commissiom said.

But there are concerns that a new wealth tax would target thousands of UK households who are not particularly wealthy and push them into debt and hardship.

Nimesh Shah, CEO at tax and advisory firm Blick Rothenberg, commented: "A report from the Wealth Tax Commission suggests that people who have assets as low as £500,000 or £1m for a married couple would have to value their worldly assets including their main home and pension pots, deduct any liabilities like mortgages, and then pay 1% tax on their total assets.

"When wealth taxes have been discussed in the past, it was expected that certain assets such as the main home and pensions would be excluded, but the Wealth Tax Commission argues that this should not be the case."

He added: "This could push thousands of households who may be asset but not cash rich, into debt. A family owning a detached house in Southern England with modest pension and ISA savings could easily be caught."

Given that many people are 'asset rich but cash poor', there is a serious question around how someone pays a wealth tax if they do not have the immediate cash liquidity.

The Wealth Tax Commission notes that 570,000 people may be liquidity constrained at the £500,000 wealth threshold, and an instalment payment mechanism would need to be introduced 'to reduce unnecessary hardship'.

"Pensioners who fund their living costs through savings, farmers owning agricultural land and private business owners will all be concerned by the proposals and how they will feasibly fund the tax – these groups may need to burden themselves with debt to pay the tax, although this may not be an option or cost effective for everyone e.g., the elderly."

Recent tensions around future tax rises, in particular capital gains tax, risk damaging the UK's reputation as a centre for international business at a time when the government should be doing all it can to keep the UK competitive under the backdrop of Brexit, according to Nimesh.

He continued: "The report has suggested a £260bn tax windfall for the Treasury over a five-year period. However, even if the government were to raise this level of tax revenue from a new wealth tax, it falls well short of the government's £335bn outlay on the coronavirus pandemic.

"The Wealth Tax Commission estimate that the government could raise £52bn per annum, which is slightly less than the £62 billion raised from corporation tax.

"The Commission have suggested that the wealth tax should be a one-off and temporary for a fixed five-year period – however, there is a real that a future government would be tempted to make the tax permanent.

"The argument for making the tax permanent is even more compelling after the considerable time and investment that would go towards introducing it in the first place, and the government may be reticent to lose the tax revenue without easily replacing it. It's a bitter pill to swallow when you take something away that generates such attractive rewards!"

The Wealth Tax Commission proposes a 'stealth' introduction of the tax to make it difficult for people to avoid. They suggest that the wealth tax would be assessed on the day the policy is announced, so that any actions taken by the taxpayer following would not be effective. This means that people relocating away from the UK subsequently could still potentially within the wealth tax net and obliged to pay the amount. Such a move would be highly aggressive and out of kilter with practice, as such dramatic changes to the UK's tax system would normally command consultation from stakeholders.

He added: "The UK's tax system is incredibly complex in its current form, and introducing a completely new tax is not necessarily the answer. If a wealth tax is to be introduced, it needs to be coupled with an overhaul or abolition of capital gains tax and inheritance tax.

"The government should also consider the existing taxes in play and how it can feasibly pull the levers to generate additional revenue through income tax, VAT and National Insurance, which currently account for almost three quarters of the UK's total tax revenue – this means breaking the 'triple lock' which is politically sensitive, but the systems and collection mechanisms are already in place.

"As the Wealth Tax Commission proposes, increases to income tax, VAT and National Insurance could be for a temporary period and the additional revenue generated is ring-fenced for supporting the NHS and those people and businesses worst affected by the Coronavirus pandemic."

Duke of Buccleuch sees shooting taxes slashed on his country estates

ONE of Scotland's biggest landowners has had the rates on his sporting estate cut after a successful appeal in a move that will reduce the annual bill – and income to the public purse – by around £25,000 a year, the Sunday National can reveal.

Advisers to the Duke of Buccleuch challenged the rateable value given to shooting and stalking rights on the Queensberry Estate at Sanquhar in Dumfries and Galloway.

Assessors had initially set the rateable value (RV) for country sports at the property at £71,500, but after the appeal it was slashed to £23,200.

Three other smaller sporting properties owned by the Buccleuch estates in the Borders also made successful appeals against the RV to their shooting rights which resulted in substantial reductions to their rates bills.

Shooting and deer stalking ventures were exempt from non-domestic rates under legislation brought in by the Conservatives in 1994, although the companies did have to pay rates for other aspects of their businesses such as offices and holiday lets.

But the Scottish Government's Land Reform Act in 2016 removed the exemption in a bid to bring in a more equitable system of land ownership and address inequalities in wealth and income.

The non-domestic tax rates bill is worked out by a formula which multiplies the RV with the poundage rate, set by the Scottish Government – currently 49.8p for properties with a RV of up to £51,000 and 51.1p for those with a RV of more than £51,000.

The calculation means that the annual rates bill for country sports on the Queensberry Estate would have been £36,536.5, but after the successful appeal the new bill would be £11,553.6 – a reduction of £24,982.

Andy Wightman, the Scottish Greens MSP, slammed the development and said it was ironic that Benny Higgins, the executive chairman of Buccleuch, is an adviser to the Scottish Government on building an economy that is fairer and greener in the wake of the pandemic.

“Shooting estates have only been liable for these taxes since 2017 and the Scottish Fiscal Commission estimated a gross income of £15 million. But because of appeals such as this from Buccleuch and the fact that some of the wealthiest individuals on the planet are eligible for the small business bonus scheme the net income was estimated at £6 million but in reality for last year was a mere £2.8 million,” said Wightman.

“It’s bad enough that blood sports continue to be an income stream for large landowners, but for them to try and minimise taxes on those businesses is depressing.”

He added: “It’s ironic that the person now responsible for quibbling the fair share of business rates on behalf of Buccleuch, Benny Higgins, is the same man advising the First Minister on a fair and green recovery. If we are to truly have a green recovery, we need reform in the way land is taxed and we need to redistribute power over land in the public interest.”

Higgins, executive chairman of Buccleuch, defended the decision. He said: “Buccleuch is a rural business employing around 450 people and, like many other businesses operating a shooting business, the re-introduction of sporting rates was uncharted territory for both assessors and businesses. Appeals were commonplace because the system was new and were lodged to a achieve a fair rating valuation.”

A spokesman added: “Buccleuch estates always pay what is due and that is not the same as not appealing the rating value.”

The Duke of Buccleuch was not personally involved in the decisions to appeal the original rateable values set for the sporting rights on his estates.

It is also true that Higgins as head of the Buccleuch business is duty bound to run the enterprises as efficiently and effectively as possible.

Under the Land Reform Act, the new revenue generated from sporting estates would go to a Scottish Land Fund to help promote community buyouts. Figures accompanying the bill estimated around £4 million a year would be collected.

AFTER the act passed surveyors gave a rateable value (RV) to each sporting estate to determine the rates they would have to pay under the new law.

Entries later published on the roll for the Scottish Assessors Association, whose members carry out the valuations, reveal the Buccleuch family’s Queensberry Estate was issued with a £71,500 rateable valuation for shooting and stalking land at Sanquhar in Dumfries and Galloway.

The roll also reveals that an appeal was lodged which was successful with the new rateable value set at £23,200.

It also shows the Buccleuch estates successfully appealed a £25,500 rateable value given to Bowhill low ground stalking land in Selkirk. The new rateable value issued last month for shooting rights on this property was cut to £9,600.

The rateable value for shooting rights at a third Buccleuch estate at Langholm Moor Stalking in Hawick in the Borders was reduced from £8,900 to £6,500 on appeal, while a separate Buccleuch estate in Hawick, Drinkstone Stalking, was successful in getting its rateable value reduced on appeal from £6,100 to £3,750.

Jim Doig, assessor and electoral registration officer at Dumfries and Galloway Council, said in a statement that the value of the Buccleuch Estate Shootings were reduced on appeal due to several factors:

- There was some parts of the original valuation removed and created as separate entries in the Valuation Roll when it became clear that parts of the land were let out separately or included within another entry in the Valuation Roll.

- The original valuation was based upon a land value per hectare that was subsequently reduced as further information became available to Assessors.

- When we engaged with the agent during the appeal, it became clear that a large part of the land was not as good quality as we had first thought. This merited a large part being valued at a much lower rate.

- There were also issues of accessibility that warranted end allowances.

He added: “Therefore whilst the change looks significant, it was warranted. As Shooting Rights were new into the Valuation Roll at 2017 Assessors had to do a significant amount of work to establish the facts and it was not possible in all cases to obtain accurate information at the outset.

“This is of course why we have appeals processes.”

A Scottish Government spokesman said: “The valuation of all non-domestic property is a matter for Scottish Assessors, who are wholly independent of the Scottish Government.

“Appeals are lodged with the valuation appeal committees and may ultimately be heard in the Lands Valuation Appeal Court.”

The spokesman did not comment on Higgins dual roles as Scottish Government adviser and executive chairman of Buccleuch Estates.

Buccleuch Estates control around 217,000 acres in Dumfries and Galloway and in the Borders making it one of Scotland’s largest landowners.