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Via email
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24th January 2025

Re: Government Discussion Paper - Transforming Business Rates

To whom it may concern,

Fuels Industry UK is a trade association that brings together companies involved in refining, renewable fuel production, terminal operations, and filling stations. Our members contribute significantly to the UK's extensive and resilient fuel supply chain today – being involved in supplying over 90% of daily demand for UK fuels - and are preparing for the future by planning and investing in projects that reduce emissions for tomorrow's Net-Zero economy.

As the transformation to a low-carbon future is delivered, we and our members are committed to taking a leadership role in shaping a flexible and resilient fuels future for UK industry and ensuring the downstream fuels sector continues to play a part in tomorrow's sustainable, energy-secure landscape. Our mission is to do this by supporting our members in leading the delivery of a flexible and resilient fuels supply chain for the UK, both today and in the low-carbon future of tomorrow.

Background

The Government have issued a discussion paper on transforming business rates inviting comments from businesses. Fuels Industry UK represents a considerable number of ratepayers who own and operate capital intensive real estate assets who pay tens of £ millions in business rates on their operational and administrative assets. Our members will be at the forefront of the energy transition with major capital expenditure commitments in the required infrastructure to reduce carbon emissions from existing operations and to deliver the net zero fuels of the future. It is therefore imperative that the business rates system is structured to facilitate this necessary capital expenditure and is aligned with wider government policy.

Business rates can function as a disincentive to capital expenditure of this nature, particularly in relation to major long-term structures and buildings constructed at material cost. The purpose of this submission is twofold.

1) To highlight the flaw in the government's proposal to reduce the UBR for the retail and hospitality sector, paid for by increasing the rate burden on other industries already facing higher taxes because of the November budget.

2) To highlight the impact of business rates on long term capital investment decisions, in particular that required to support the transition to net zero, and to suggest some additional measures which the government should consider aligning the business rates system with long term policy objectives.

Comments on Government Paper

Chapter 2 – Protecting the High Street

This confirms the government's intention to permanently subsidise the High Street with a lower UBR for retail and hospitality properties funded by properties with individual RVs of more than £500,000. The business rates system is a tax based upon property values with revaluations acting as a shock absorber to level out tax liabilities according to movements in property values. Clearly the High Street has suffered "economic headwinds" in recent years, but the business rates system allows for that through revaluations and the High Street will have seen material reductions in Rateable Values and liabilities because of reduced demand for space, lower rents and the ending of downwards transitional phasing. This reflects the business rates system working as intended, supporting struggling areas of the economy through revaluations changing the distribution of the tax burden, whilst collecting a higher share of tax from those sectors of the economy which are economically performing. To introduce a lower UBR on top of these adjustments is to directly subsidise one sector of the economy at the expense of others. Our members assets are very "property intensive," and are responsible for significant employment within the UK. As our sector has not seen reductions, as ratepayers we effectively subsidise the High Street which already benefits from the impact of revaluations. A further subsidy is double counting and potentially distortive.

A higher UBR on productive sectors of the economy will function as a further obstacle to achieving economic growth which is so badly required in the UK. The government should support all sectors of the economy in targeting economic growth and provide a balanced and level playing field through its taxation policy. The proposal for a lower UBR in the retail and hospitality sector funded by other productive sectors of the economy is a retrograde step which introduces uncertainty and higher tax liabilities. It will therefore directly impact on investment decisions required to achieve the government's policy objectives of economic growth and achieving net zero.

Priority Areas for Further Reform

We would make the following comments in respect of the suggestions in this chapter.

- Improvement Relief – We consider that the introduction of improvement relief was a step forward in supporting new capital investment. However, the impact on long term investment decisions is nominal where investment time horizons are 30-50 years which is the case for many of our members projects and other net zero projects across the UK. There is a clear challenge to incentivise investment in the UK to meet net zero targets and stimulate economic growth. Improvement relief should be considered a potential tool to support the Government's longer term policy objectives through materially longer periods of rates free exemptions (10 years) for capital investment which is a) long term in nature and/or b) contributing towards net zero.
- Anti-Avoidance – We have no comments on the existing system or proposed changes thereto but support the government's commitment to anti-avoidance of business rates liability.
- Making the System More Responsive – We agree that moving towards a valuation date one year prior to the revaluation would be a sensible step and note that it has already been implemented in Scotland. On balance we consider that 3 yearly revaluations are appropriate and that reducing further would lead to greater uncertainty as well as being difficult to implement.
- Enabling Reforms – We retain material concerns over the implementation of the "information duty", particularly given the nature of our sites where changes occur on a frequent but irregular basis. There is a considerable danger of imposing a material administrative duty on ratepayers with no discernible benefit. The Valuation Office Agency (VOA) can already request information from ratepayers. The imposition of time and cost on businesses does not align with a pro investment and growth agenda.
- A Proportionate Burden - Since business rates were introduced in 1990 the UBR has risen in England from 34.8p to 54.6 p, a 57% increase in the tax rate. The implementation of a fixed UBR may have attractions to businesses but only if the UBR was set at a level commensurate with its original position which would deliver a material reduction in the tax burden and kick start investment and economic growth. The fundamental issue is the high incidence of the business

rates tax through a UBR more than 50%. The proposals to impose a higher UBR on larger hereditaments only serves to exacerbate this.

- A system Fit for the 21st Century – We support the government's intention to fully digitalise the business rates system but do not consider that the information duty should be linked to this.

Other Concerns

The discussion paper asks for any other areas where businesses consider improvements could be made to the business rates system to align with policy. Fuels Industry UK's main concern with the business rates system in its current form is that it penalises capital investment and acts as a disincentive to investment decisions. Massive capital investment is required in the UK to support the transition to net zero which is a major plank of government policy and fundamental changes to the system are required to remove barriers to investment. In some cases, direct government support through mechanisms such as Contract for Difference (CfD) result in materially higher Rateable Values and business rates liabilities. This is important for new industries such as hydrogen production and carbon capture whereby government support is required for initial investment but such support results in high property tax liabilities which could defer investment decisions.

The current plant & machinery regulations which govern rates payable on plant and equipment adversely impact network infrastructure such as pipelines and have not been reviewed in the light of net zero objectives. For example, CO_2 and hydrogen pipelines would be fully rateable assets under the current regulations. Business rates liabilities on new investment will therefore be prohibitive and are likely to increase the level of government support required to reach Final Investment Decisions. The current business rates system therefore actively works against UK government policy objectives.

We also consider that the VOA powers to backdate increases to assessments because of a Material Change of Circumstances can lead to significant financial problems for businesses, often through no fault of their own. We consider that all increases in assessment should only apply to within 3 months of being notified of the change, or else the change is limited to the date the rating list is altered avoid sudden shocks which may place viable businesses in jeopardy.

We would make the following suggestions for consideration which would not impact on existing government revenues from property tax but would remove business rates as a barrier to the required future investment.

- The presence of government support either directly or through CfD, or Regulatory Asset Base model for new investment should be disregarded for the purposes of valuation in determining the appropriate Rateable Value.

- Improvement relief for new long term capital investment or to support the net zero transition should be extended to at least 10 years.
- A review of the plant and machinery regulation should take place with a stated aim of removing all new investment in plant and machinery associated with the net zero transition from assessment. Specifically, there should be a review of network infrastructure assets such as pipelines.
- Limit all increases in RV to date 3 months of being notified or else the date of List alteration.

In summary Fuels Industry UK consider that:

1) The proposed introduction of a lower UBR for the retail and hospital sectors funded by a higher UBR for all industries with an RV more than £500,000 is flawed and serves to increase taxation on productive sectors of the economy and deter future investment.
2) Business rates is a tax on capital investment and serves as a disincentive to the investment decisions required in the UK to support economic growth and achieve net zero.
3) Measures should be introduced to reduce or remove the tax on new investment to stimulate economic growth in the UK and which aligns with UK government policy.

Yours sincerely,

James Baker

Director of External Relations