Britain's high streets need help now...

A £5 billion rates reduction to help high street businesses, financed by a fairer tax on online business

An interim proposal by New West End Company

The Chancellor wants to reform business taxes to reflect the growth of online businesses but this will take time.

In the interim, our proposal for a small tax on online business will help Britain's high streets now.

- **a 1% tax on the revenues of online businesses to give the Treasury some flexibility to help the nation's high streets**
- **the tax will only be on sales of online businesses *not* the online sales of traditional businesses models**
- **the tax will include all online businesses not just online retail businesses**
- **the yield would be used to reduce the business rates multiplier**
- **we estimate that a 1% tax on the sales of all online businesses – not just online retailers - could raise up to £5 billion which would reduce the business rate multiplier by around 17.5%**
- **this would be a significant and immediate boost to all businesses, but particularly those in the high streets throughout the UK**

It will **help high streets** to adapt and prosper by:

- reducing a major fixed cost
- giving high street businesses time to adapt to reflect changing customer trends
- levelling the playing field by ensuring that online businesses pay their fair share

It would **help Government** by:

- delivering its commitment to support high streets across the country
- responding to calls to cut business rates
- piloting its proposals for revenue-based taxes for online businesses
- safeguarding businesses and jobs for a healthier economy
- boosting public services by cutting business rates bills for hospitals, schools and other public institutions

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Business rates disproportionately hit high street businesses and are damaging their ability to compete and adapt to change

High streets are suffering and unfair business rates are preventing recovery and change

In 2018 Britain's high street retailers are facing the perfect storm:

- **A cyclical downturn** – caused by falling consumer confidence
- **Major structural change** – caused by changing consumer shopping trends
- **Rising costs** – of goods and employment and particularly the fixed cost of business rates

The **disproportionately high level of business rates** inflicted on high street businesses by Government is **severely damaging retailers' ability to survive the downturn and adapt to change**.

And because a tax based on property value is inappropriate for a digital economy the Government is penalising high streets retailers while at the same time giving an **unfair competitive advantage to their online competitors**.

Many **high street businesses are closing stores** and household names are reducing their presence on the high street in certain locations in an effort to reduce costs.

Urgent action is needed now to reduce the damage being caused.

While cutting business rates would not solve all the high street's problems: it would

- remove a major barrier to change,
- reduce a disproportionately and unfairly high fixed cost
- remove an inbuilt competitive advantage that this property-based tax gives to online business

We cannot afford to wait for a wider review business taxes

Action by Government is needed NOW to make the **difference between many of Britain's high streets adapting or collapsing**.

That's why New West End Company is proposing an interim solution which can be implemented quickly to allow British high streets to make the changes needed now, while the Chancellor considers more long term reform.

Business rates hit high streets most

Business rates are not linked to economic performance but to the value of the property they use which hits the **high street the hardest**. High street retailers, restaurants and bars have to use more space in more expensive areas than most other businesses, especially online businesses.

The British Retail Consortium shows that retail pays a disproportionate amount of business rates. **Retail accounts for 6% of GDP but pays 26% of all business rates**.

Business rates is the biggest tax that retailers pay – it **accounts for nearly half (45%) of retailers' tax bills** (BRC).

Business rates give online businesses an unfair advantage at the expense of high street businesses

The current **business tax system is not appropriate for online businesses** which use less property, employ fewer people and record lower profits.

Business rates, based on property values, are a major funding source for local services but were not designed for the new digital economy.

This results in online businesses contributing far less towards local services because **a property based tax is not appropriate for a business model that requires relatively little property**.

The business rates system gives online businesses an unfair advantage at the expense of high street businesses

Currently **business rates are around 2.3% of high street retailer revenue but, on average, just 0.6% of online business revenue**.

In 2017 M&S paid £184 million in business rates, with a revenue of £9.6 billion. Amazon, with a revenue of £7.3 billion in the UK, paid around £38 million. **If Amazon had paid the same proportion of their revenue as M&S they would have paid nearly three and a half times more**, at £140 million.

In 2018/19 the average rates bill for department stores in England and Wales rose by 26.6%, large high street shops saw an average 10.8% but Amazon saw its business rates rise by just 0.7%.

1 British Retail Consortium – "Retail 2020" February 2016
2 British Retail Consortium – "Retail 2020" February 2016
3 Centre of Retail Research – Retail at Bay 2018
4 Altus Group research – August 2018
5 Altus Group research reported in Financial Times and Daily Mail July 2018
6 House of Commons Library briefing paper "The retail industry: statistics and policy" March 21 2018

The business rates revaluation, implemented in **2017, saw London's West End business rates bills rise by an average of 80%**, reflecting changes in property values since the 2008 revaluation. Some West End stores saw their business rate rises of over 150% .

But sales in the West End in the same revaluation period rose by just 30% (2008-2017). There is clearly no link between property value and occupiers' performance.

Many high street retailers also have an online presence as they adapt to structural changes in shopping and customer trends. However, as the **House of Commons briefing paper on the retail industry** makes clear, theirs is not an online business model and **they still carry all the costs of a traditional high street retailer model**, including high rents and business rates, which online business models do not.

Our interim proposal results in **a more appropriate tax system for online businesses without placing an extra tax burden on traditional businesses** - even those with a proportion of online sales – for whom the current tax system was designed.

Arup report, commissioned by New West End Company, suggests better ways of taxing business to help fund local government services

NWEC commissioned **Arup and Professor Tony Travers** to examine alternatives to business rates.

The report shows that the **UK relies far more heavily on property taxes to fund local government spending than any other country**. It examined six alternative taxes.

Based on the report, New West End Company believes that **replacing business rates with a revenue based tax**, either based on sales or turnover for all businesses, is worth exploring in the longer term.

However, we believe **in the interim a small revenue-based tax on online businesses should be used to address the online anomaly and provide some immediate relief to high streets**.

New West End Company is asking the Chancellor to act in the Autumn budget

NWEC's proposals are contained in **written evidence presented to the Housing, Communities and Local Government Select Committee "High streets and town centres 2030" inquiry**.

New West End Company **is asking the Chancellor to include the proposal in his 2018 budget** as an interim measure.

It will **ensure that online businesses pay their fair share of business contributions** to the funding of local services and will be a **pilot for HM Treasury's longer term aim** of introducing more appropriate taxes for online businesses.

It will produces a **significant reduction for all business rate payers**, giving much needed support to high streets struggling to adapt to current changes. It will also cut business rates for **public services such as the NHS, which could save up to £59 million** - enough to pay over 2,500 newly qualified nurses - and schools, libraries and care homes. It would also apply to all online businesses.

It builds on the **Chancellor's commitment to move to a revenue-based tax on online businesses**. In his Spring 2017 Budget the Chancellor announced he would be reviewing how online businesses are taxed. In March 2018 HM Treasury published a position paper on taxing online businesses, focussed on Corporation Tax, saying it favoured revenue-based taxes, as NWEC is proposing.

Using the existing VAT system the new online business tax could be **implemented quickly and cheaply** and, unlike corporation tax, would not require international agreements.

New West End Company is seeking commitments to **wholesale reform of the business rates system in the longer term** by the major parties at the next election to replace it with a more appropriate and fair tax

Sir Peter Rogers, Chairman

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7 Arup and Professor Tony Travers "Business rates review study" July 2018. Summary findings. https://newwestend.com/wp-content/uploads/2018/07/20180705_NWEC_Tax_Reform_Summary_Report-ZW.pdf

8 https://newwestend.com/wp-content/uploads/2018/06/HCLGSC-High-Streets-Future-NWEC-response_June-2018.pdf

9 In 2017 the NHS paid £336 million in business rates

10 Based on a salary of £23,000

11 HM Treasury, "Corporate tax and the digital economy: position paper update" March 2018

A fairer way forward

A **1% tax** on revenues of **online businesses** could raise up to

£5 billion

This would be enough to **cut business rates** by

17.5%

Business rates are a higher percentage of **high street retailers' revenues** than **online retailers'**

2.3%
of **high street** retailers' revenue

0.6%
of **online** retailers' revenue

2017 revaluation shows no link between business rates and economic performance

business rates rose by an average of

80%

some stores saw a **rise in rates** of over

150%

whilst **sales** rose by just

30%

Retail accounts for only **6% of GDP** but pays **26% of all business rates** – in England and Wales in 2017-18 this was

£29.4 billion

2,860,000
jobs in UK retail in 2016, equivalent to 9.4% of total UK employment

The estimated **average rate rise** for 2018-19 disproportionately hits the high street:

+26.6%
department store

+10.8%
large high street stores

+0.7%
Amazon

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