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ARTICLE

SUBJECT: REVALUATION OF COMMERCIAL RATES: HARMFUL TO SMALL BUSINESS AND OUR CITY CENTRE?

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Revaluation is essentially a review of commercial property tax to reflect changes in relative rental values of property. It was provided for under the Valuation Act 2001 and began in 2005. It is being carried out by the Valuation Office and involves the incremental build up of Valuation Lists for all commercial properties, within each of the rating authorities around the Country. It has been a slow process to date and only three rating areas have been re-valued in full. It is proposed that the enactment of the Valuation [Amendment] Bill 2012 will accelerate the programme for revaluation. This proposes self-assessment and the external delivery of elements of the valuation process together with ways to minimise exemptions from rates and to streamline the appeal procedures available to ratepayers. However, there is no definitive answer as to when the Valuation Office will complete the process of revaluation for the entire country.

When we talk to small business, particularly in the City Centre, one of the key points they raise is the burden of commercial rates in the current market and that there is a general problem with the system.

There is no ability to pay element but it is based on location and the estimated rental value of a property. Commercial Rates are essentially calculated as a proportion of the rental value of the property, which is assessed by the Valuation Office and based on benchmarks in the area. It is presumed if a business occupies a more expensive and prime location it has more ability to pay, irrespective of trading performance.

So lets examine how a decision to progress with this system for revaluation could be harmful for small business and Cork City

With a property tax system based on values, there is a desirability in having values as up to date as possible to ensure the tax base is accurately identified. However, the revaluation process is not designed to raise extra revenue from commercial rates, rather it redistributes the burden among ratepayers. The amount businesses will pay ought to vary based on location or estimated rental value of property. Typically the more expensive rates will be paid in prime locations because the assessment of rent will be higher.

This can make rates the biggest cost by far in a city centre locations, which can effect the viability of existing business and deter others from taking on those dusty vacant properties.

And so it was recently confirmed to businesses located in Waterford City Centre during the current revaluation process. Rate increases are between five and two hundred per cent. This compounds a trend identified in other revaluation exercises, where rates inexorably increased within certain parts of Fingal, Dun Laoghaire-Rathdown and Dublin City County Council Areas. The process is progressing in Limerick City and County and the same rules will be applied when in comes to Cork City's turn for revaluation.

The main pro of the system for the authorities is that it is relatively easy to collect rates and in the instance of Cork City Council in brings in forty per cent of its income or €65 million per annum. However, it has large downsides for the ratepayer in that rates continue to be based on an estimate of rent at a specified date and even if rents were to decrease in the future, per the provisions of legislation that allows for upwards and downwards rent review clauses, this will not be reflected in business rates until a subsequent revaluation, at a five or ten year interval.

As evidence shows the current process of revaluation is slow, can be costly to business and is not well received. This has all been reflected in the number of appeals that have been submitted to the Valuation Office during revaluation exercises to date.

The current system is set up so that there will be winners and losers in the redistribution of rates. Of course there will always be winners and losers, however a rating system needs to be fair. Many business believe that a system that takes such a long time to implement [risk of deferment in future revaluations] and is based on rents at a specified period in time [that can become quickly out dated] can continue to promote unfairness, even between businesses located in different rating authorities.

So is it time to abandon the current rates revaluation approach and examine a case for reform of the system, with a transformational rates policy to support an emerging landscape.

It does seem to me that the rating system fails to look at modern day business and market trends. It looks at business in a historical way, for example it doesn't take account of big structural changes and shifts in consumer behaviour, particularly growth in on-line and mobile retail sales, footfall changes or turnover achieved through high street shops. Perhaps the main street isn't necessarily the prime space it once was.

Nonetheless, if a vibrant city is desirable and it is recognised that independent and small business make up a vast proportion of our City's economic lifeblood and if you want them to survive, then they must be offered help. That means a re-look at the rates system and rateable values.

Through my work I have come across innumerable ways in which the owners of small business are unhappy with the way the system works. However, the main reason tends to boil down to one factor, that the rateable value based on commercial rents is not an accurate guide to the true and latest performance of their business. It is not flexible enough to take account of such things as street closures, car parking charges, the rise of on-line competition and the many other factors, which can effect trade but not the rates bill. Business owners are worried, investing personal money to keep the bills paid and seeking opportunities to relocate. This is not sustainable for the vitality of the City Centre.

And of course the provision relating to material change of circumstance "change to physical nature of the property" remains, which means that a burdensome issue will continue - rates will not be altered due to changes in economic circumstances.

Most small businesses would prefer to be taxed on performance or something more directly related to the ability to pay.

The time is right for simplification and change, whereby you could have a business property tax that was balanced, not seen as difficult to understand and relates to performance - is it much better to be taxed on what you win rather than where you are located. Of course there will inevitably be complaints that this a tax on success, but rates must be paid in any case, so why not relate to performance as other taxes do.

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