



Non Domestic Rates Revaluation 2005 Transitional Arrangements



Background

Under existing legislation, the Scottish Assessors are responsible for revaluing all non domestic property in Scotland every five years. The next revaluation will take effect from 1 April 2005. The 2005 Revaluation will result in the production of a new Valuation Roll which contains revised rateable values for all non-domestic properties in Scotland.

Key Aims and Purpose

The key aims of the Revaluation are maintaining stability, certainty for business and the continuation of harmonisation of valuation treatment and practice, north and south of the border. The purpose of the Revaluation is to update rateable values on non-domestic properties to more up-to-date rental levels. This creates a closer, fairer link between modern property values and the amount of rates payable by individual ratepayers.

The Rates Bill

There are two main factors which contribute to the bill of every non-domestic ratepayer; the rateable value of the property and the non-domestic poundage rate.

1. Rateable Values and Revaluation

The rateable value of every property is determined by the appropriate Assessor, who is independent of both local and central government. The rateable value is the

Assessor's estimate of the annual rent which that property would command on the open market. The methods used to value property have been subject to harmonisation between Scotland, England and Wales. The Scottish Assessors Portal <http://www.saa.gov.uk/> provides details of rateable values for non domestic subjects in Scotland.

2. The Poundage Rate

From 1st April 2005, the non-domestic poundage rate has been set at 46.1 pence for the year 2005-06. To calculate the rates bill for your property, you should multiply the rateable value by the poundage rate but remember that your rates bill will be affected if you are subject to the transitional arrangements, details of which are included in this leaflet.

Ratepayers who occupy non domestic subjects with a rateable value of £11,500 or less from 1 April 2005 will be eligible for a discount on the poundage rate of between 5 per cent and 50 per cent. Ratepayers who occupy non domestic subjects with a rateable value in excess of £29,000 from 1 April 2005 will be liable to pay a small supplement on the poundage rate (0.45p for 2005-06) to cover the additional costs of the Small Business Rate Relief Scheme.

Need for and purpose of transitional arrangements

Following the 2005 Revaluation those properties whose rateable values increase by more than the Scottish average of 13.3% will be faced with increases in their bills and some may be significant. The aim of

transitional arrangements is to protect ratepayers who occupy such properties from sudden sharp increases in their bills in the period immediately following the revaluation, allowing them time to plan to accommodate the true bill over a longer period.

The transitional scheme

The scheme aims to combine simplicity with initial protection for those faced with significant real increases in bills. It limits increases in bills to 12.5% in real terms for non domestic subjects and limits the decrease in bills of ratepayers to 10% in real terms.

This leaflet contains examples of how transitional arrangements and rates bills can be calculated under this scheme for the year 2005-06 and the phasing in of the true bill over the 3 year period for which the scheme is to last.

Phasing in the true bill

The scheme strikes a balance between the need to give ratepayers time to plan for the change in bill following revaluation, and the need to ensure that ratepayers are paying a bill based on the true rateable value of the property they occupy as soon as practical after the revaluation.

Upper Transitional Limits

For all ratepayers the factor for increases is 1.160 derived from the 12.5 per cent

maximum increase and the 3.1 per cent change in the Retail Price Index representing inflation, i.e. $1.125 \times 1.031 = 1.160$.

Lower Transitional Limits

For all ratepayers the factor for decreases is 0.928 derived from the 10 per cent maximum decrease and the 3.1 per cent change in the Retail Price Index representing inflation, i.e. $0.90 \times 1.031 = 0.928$.

Examples

These are illustrative only and are based on the fairly arbitrary assumption that poundage increases by 2.5 per cent each year. The scheme is illustrated with a 12.5 per cent limit for the real increase and 10 per cent limit for the real decrease in bills between 2004-05 and 2005-06 and a rateable value in 2004-05 of £20,000.

With these assumptions the poundage for all businesses would be:

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Inflation		2.0 ¹	2.5	2.5	2.5	2.5
Poundage	48.8	46.1	47.3	48.5	49.7	50.9

Example 1 (no TR)

Rateable value in 2004-05 of £20,000

Bill in 2004-05 of £9,760 (£20,000 x 48.8p)

Rateable value in 2005-06 of £22,000

Bill in 2005-06 of £10,142 (£22,000 x 46.1p)

¹ This is the inflation factor used in the calculation of the 2005-06 poundage rate as opposed to the RPI figure of 3.1% at end September 2004 “*Technical Note: NDR 2005-06 poundage calculation*” can be found on the Business Rates section of the Local Government Finance Website <http://www.scotland.gov.uk/businessrates>.

This is a 0.79% increase in bill, in real terms (after an inflation factor of 1.031 is applied to the 2004 bill to give a notional figure of £10,063)

Therefore no Transitional Relief in any year.

Example 2 (no TR)

Rateable value in 2004-05 of £20,000

Bill in 2004-05 of £9,760 (£20,000 x 48.8p)

Rateable value in 2005-06 of £20,200

Bill in 2005-06 of £9,312 (£20,200 x 46.1p)

This is a 7.46% decrease in bill, in real terms (after an inflation factor of 1.031 is applied to the 2004 bill)

Therefore no Transitional Adjustment in any year.

Example 3 (15% increase in bill)

Rateable value in 2004-05 of £20,000

Bill in 2004-05 of £9,760 (£20,000 x 48.8p)

Rateable value in 2005-06 of £25,100

Bill in 2005-06 of £11,571 (£25,100 x 46.1p)

This is a 15% increase in bill, in real terms (after an inflation factor of 1.031 is applied to the 2004 bill)

Therefore Transitional Relief (TR).

Step 1 (cap)

In year 1 (2005-06), the bill is limited to a 12.5 per cent real increase in bill. This is £11,322. (£9,760 x 1.160)

Step 2 (phasing out TR)

In 2005-06, TR is £11,571 – £11,322 = £249

In 2006-07, TR is TR in 2005-06 (in 2006-07 terms) $\times 2/3 = \text{£}249 \times (47.3/46.1) \times 2/3 = \text{£}170$

In 2007-08, TR is TR in 2005-06 (in 2007-08 terms) $\times 1/3 = \text{£}249 \times (48.5/46.1) \times 1/3 = \text{£}87$

In 2008-09 and 2009-10, TR is Zero

The bills, after TR would be

2005-06 $\text{£}11,322$

2006-07 $\text{£}25,100 \times 0.473 - \text{£}170 = \text{£}11,702$

2007-08 $\text{£}25,100 \times 0.485 - \text{£}87 = \text{£}12,086$

2008-09 $\text{£}25,100 \times 0.497 - \text{£}0 = \text{£}12,475$

2009-10 $\text{£}25,100 \times 0.509 - \text{£}0 = \text{£}12,776$

Example 4 (doubling of bill)

Rateable value in 2004-05 of $\text{£}20,000$

Bill in 2004-05 of $\text{£}9,760$ ($\text{£}20,000 \times 48.8\text{p}$)

Rateable value in 2005-06 of $\text{£}43,655$

Bill in 2005-06 of $\text{£}20,125$ ($\text{£}43,655 \times 46.1\text{p}$)

This is a 100% increase in bill, in real terms (after an inflation factor of 1.031 is applied to the 2004 bill)

Step 1 (cap)

In year 1 (2005-06), the bill is limited to a 12.5 per cent real increase in bill. This is $\text{£}11,322$ ($9,760 \times 1.160$).

Step 2 (phasing out TR)

In 2005-06, TR is $\text{£}20,125 - \text{£}11,322 = \text{£}8,803$

In 2006-07, TR is TR in 2005-06 (in 2006-07 terms) $\times 2/3 = \text{£}8,803 \times (47.3/46.1) \times 2/3 = \text{£}6,021$

In 2007-08, TR is TR in 2005-06 (in 2007-08 terms) $\times 1/3 = \text{£}8,803 \times (48.5/46.1) \times 1/3 = \text{£}3,087$

In 2008-09 and 2009-10, TR is Zero

The bills, after TR would be

2005-06 £11,322

2006-07 $£43,655 \times 0.473 - £6,021 = £14,628$

2007-08 $£43,655 \times 0.485 - £3,087 = £18,086$

2008-09 $£43,655 \times 0.497 - £0 = £21,697$

2009-10 $£43,655 \times 0.509 - £0 = £22,220$

Example 5 (15 per cent decrease in bill)

Rateable value in 2004-05 of £20,000

Bill in 2004-05 of £9,760 ($£20,000 \times 48.8p$)

Rateable value in 2005-06 of £18,553

Bill in 2005-06 of £8,553 ($£18,553 \times 46.1p$)

This is a 15% decrease in bill, in real terms (after an inflation factor of 1.031 is applied to the 2004 bill)

Step 1 (cap)

In year 1 (2005-06), the bill is limited to a 10.0 per cent real decrease in bill. This is £9,057 ($£9,760 \times 0.928$).

Step 2 (phasing out the Transitional Adjustment (TA))

In 2005-06, TA is $£8,553 - £9,057 = -£504$

In 2006-07, TA is TA in 2005-06 (in 2006-07 terms) $\times 2/3 = -£504 \times (47.3/46.1) \times 2/3 = -£345$

In 2007-08, TA is TA in 2005-06 (in 2007-08 terms) $\times 1/3 = -£504 \times (48.5/46.1) \times 1/3 = -£177$

In 2008-09 and 2009-10, TA is Zero

The bills, after TA would be

2005-06 £9,057

2006-07 $£18,553 \times 0.473 + £346 = £9,121$

2007-08 $\text{£}18,553 \times 0.485 + \text{£}177 = \text{£}9,175$

2008-09 $\text{£}18,553 \times 0.497 + \text{£}0 = \text{£}9,221$

2009-10 $\text{£}18,553 \times 0.509 + \text{£}0 = \text{£}9,443$

Amendment to the Valuation Roll subsequent to 1 April 2005

The transitional bill would be recalculated to reflect the result of a successful appeal against the 1 April 2005 valuation.

Where a property increases in value from a date after 1 April 2005 as a result of a material change of circumstance, ie. not as a result of revaluation, no phasing arrangements will apply to the additional rates arising. The increase in rates will be added in full to the notional rates bill from the date of the increase in rateable value. Where transition applies and the value of a property decreases from a date after 1 April 2005 the rates bill will be reduced in proportion to the decrease in the actual rates bill.

Splits, mergers and reorganisations

The scheme will apply in respect of properties which, with effect from 1 April 2005, are merged or split into separate subjects and which are formed from an entry in the valuation roll at 31 March 2005. Special rules will apply.

Changes in Occupation

Property in transition will continue in transition on a change of ownership or occupation.

Empty Property and Phasing

If a property has been empty at 1 April 2005 for a period of at least three months and providing it is not one of the classes of property exempt from the empty rate it will attract the national non-domestic rate for 2005-06 at 50 per cent of the normal rate for so long as it remains unoccupied. If the property is unoccupied and subject to transition the transitional rates bill will be 50 per cent of what would otherwise be payable if the property had been occupied.

Reliefs and Rebates

Where a ratepayer is entitled to a mandatory or a discretionary relief of rates payable for year 2005-06 the level of relief will be applied to the transitional rates bill.

Frequently Asked Questions

Why has the rateable value of my property increased ?

A general revaluation of non-domestic property takes effect from 1 April 2005. Your new rateable value represents the rent which your property could be expected to command using the levels of rents prevailing at 1 April 2003, whereas your previous rateable value was based on 1998 rental levels.

Do I pay more because my rateable value has increased ?

Not necessarily; this will depend on the combined effect of changes in rateable value and differences between the 2005-06 poundage rate and the poundage rate in force for 2004-05. The Scottish Executive is

aware it can be difficult for ratepayers to accommodate sudden sharp increases in their rates bills. It has therefore been decided to phase in any significant increase in a non-domestic rates bill which results from revaluation by limiting the extent to which the 2005-06 rates bill can increase.

Do I have to apply for the phasing arrangements to be applied?

No. If the phasing arrangements should apply in respect of your property they should be automatically taken into account in the calculation of your non-domestic rates bill, the details of which will be included in the rate demand note which you receive from your local authority. If you disagree with the basis of calculation of your bill you should contact your local authority.

What happens if my rateable value is decreased on appeal ?

If you appeal successfully against the level of rateable value at revaluation the amended rateable value will be backdated to 1 April 2005. The rating authority will require to recalculate your rates liability, including redetermination of any transitional arrangements. If you have overpaid interest may be payable by the local authority on the amount refunded.

Do I qualify for transition if I occupy a property for the first time after 1 April 2005?

Yes. The scheme is designed to protect ratepayers from sizeable increases in non-domestic rate bills resulting from revaluation. If the property is entitled to relief at 1 April 2005 then you will share this relief for the number of days that you are charged rates.

Finding out more

Specific queries about your individual bill should be addressed to your local authority.

Further information about Non-domestic Rates and Revaluation 2005 is available at the Business Rates website on www.scotland.gov.uk/businessrates.

If you have any general enquiries about transitional arrangements, contact:

Scottish Executive
Business Rates Enquiries Section
Area 3-J (Dockside)
Victoria Quay
EDINBURGH
EH6 6QQ

Email: Business.Rates.Enquiries@scotland.gsi.gov.uk

This leaflet is available on the Scottish Executive's web site on www.scotland.gov.uk under "Publications".

© Crown copyright 2005

ASTRON 209875 01/05

100% of this document is printed on recycled paper and is 100% recyclable.

www.scotland.gov.uk