

## Non-Domestic Rating (Preparation for Digital Services) Bill HL Bill 177 of 2017–19

### Summary

The [Non-Domestic Rating \(Preparation for Digital Services\) Bill](#) is a two-clause government bill. The Speaker of the House of Commons has certified it as a money bill. The bill would provide HM Revenue and Customs (HMRC) with powers to incur expenditure to prepare digital services intended to link local authority non-domestic rates (also known as business rates) systems with HMRC's digital tax accounts. At present, HMRC cannot incur such expenditure because its statutory functions do not include the administration of business rates.<sup>1</sup> The bill's explanatory notes state the bill would give HMRC "the power to begin designing and developing the digital service".<sup>2</sup>

There have been recent reforms to the business rates system. David Cameron's Conservative Government committed in the 2016 Budget to link business rates payment systems with HMRC's online tax accounts.<sup>3</sup> This followed two business rates reviews between 2014 and 2016.

The bill started in the House of Commons on 25 April 2019. Its second reading took place on 13 May 2019 and it completed its Commons stages on 20 May 2019. During its passage it received general support from the Opposition and no amendments were tabled at any of its House of Commons stages. The House of Lords gave the bill a first reading on 21 May 2019. The bill's second reading and remaining stages are scheduled for 11 June 2019.

### Bill Provisions

The bill is comprised of two clauses. Clause 1(1) would provide powers for HMRC to incur expenditure in connection with digital services "for the purpose of facilitating the administration or payment" of non-domestic rates in England. Clause 1(2) defines "digital services". Clause 1(3) defines "non-domestic rates" as those payable under part 3 of the Local Government Finance Act 1988. Clause 2 would extend the bill's provisions to England and Wales. However, the bill would apply to England only.<sup>4</sup>

### Background

Business rates are a property tax on non-domestic properties, calculated based on the property's rateable value. This is a periodic valuation of a property's rental value on the open market multiplied by a 'multiplier' set by the Government.<sup>5</sup> The occupier of the property pays the business rates. These are collected by billing authorities, which in most cases are local authorities.<sup>6</sup>

In recent years, there have been calls for reform of the business rates system. These have come in response to concerns over rental values for business properties and their impact on the competitiveness of UK high streets. Between 2014 and 2016, successive governments undertook

reviews of the business rates system.<sup>7</sup> In March 2016, in response to the outcome of those reviews, David Cameron’s Conservative Government made the following commitment:

By 2022, local authority business rate systems will be linked to HMRC digital tax accounts so that businesses can manage their rates bills in one place alongside other taxes.<sup>8</sup>

An identical commitment was included in the 2016 Budget.<sup>9</sup>

Clause 1 of the bill is identical to a clause found in the [Local Government Finance Bill 2016–17](#). That bill completed its Commons committee stage but fell due to the June 2017 general election.

## House of Commons Stages

### *Second Reading*

The bill received its second reading on 13 May 2019. Introducing the bill, Rishi Sunak, Minister for Local Government at the Ministry of Housing, Communities and Local Government, said that the Government was committed to ensuring the tax system was “fit for the 21st century”. He explained the bill was an “extremely short and simple measure” that would allow HMRC “to start exploring future digital reform of the business rate system”.<sup>10</sup> Mr Sunak summarised the Government’s view of the current system’s problems:

[B]usinesses today receive separate business rates bills for each non-domestic property they occupy. Large businesses with property in different areas may receive bills from a number of local authorities responsible for issuing bills and collecting payment. It is worth bearing in mind that there are over 300 different billing authorities today, each with its own system of billing for business rates [...] [T]he Government’s clear view is that reforming the system to more closely link with the wider management of business taxes led by HMRC could unlock long-term improvements to the current system.<sup>11</sup>

John Redwood (Conservative MP for Wokingham) asked the Government what sort of payment system might emerge from HMRC’s work and for an estimate of the costs involved.<sup>12</sup> Mr Sunak said that the bill was a “paving measure” and that ministers would update the House in due course with further proposals and their associated costs.<sup>13</sup> He added the Government did not expect the new system to come into force until after the next business rates revaluation in 2024.<sup>14</sup>

Jim McMahon, Shadow Minister for Housing, Communities and Local Government, said that the Labour Party supported the general principle of digitisation of tax payment systems.<sup>15</sup> However, Mr McMahon said that the bill’s proposed reform raised several questions. Mr McMahon sought confirmation from the Government that HMRC’s development of a payment system “will not change the fundamental and historical role” of local authorities as billing authorities.<sup>16</sup> He referred to the views of the Local Government Association, which had also sought such clarification.<sup>17</sup> Mr McMahon also asked the Government:

What payment mechanism will be in place to transfer funds to local authorities, especially in rate retention pilots? Who will be responsible for the collection of rates, and who will underwrite funds lost through non-collection?<sup>18</sup>

Summing up the debate, Jake Berry, Minister for the Northern Powerhouse and Local Growth, did not confirm that local authorities would retain responsibility as billing authorities for business rates. However, he stated that the implementation of any change to the current billing system would require further legislation, which would be subject to the “usual scrutiny” of the opposition parties.<sup>19</sup> In response to Jim McMahon’s other questions, Mr Berry stated:

I am unable to answer any of those questions today because the purpose of the bill is to give HMRC the statutory power, which it currently does not have, to go away and work up that system. How the system will work cannot become clear until we have empowered HMRC, both on second reading and in committee, to start work on it. That is why it is so important that we agree second reading this evening, and it is why it is so welcome that the Opposition frontbench team support the bill.<sup>20</sup>

### ***Committee Stage and Third Reading***

A committee of the whole House considered the Bill during a single sitting, on 20 May 2019. This was followed by report stage and third reading the same day. No amendments were tabled during committee. The only speakers during committee and third reading were Rishi Sunak and Jim McMahon.

Mr McMahon reiterated the questions he had asked the Government at second reading. In addition, he asked how frequently payments would be made from HMRC to local authorities under the new system.<sup>21</sup> He also asked about the proposed costs of the project. He noted that the money resolution had not included “even a rough estimate of how much the new system might cost”.<sup>22</sup>

In reply, Rishi Sunak repeated that answers could only be given once HMRC had undertaken the preparatory work. However, Mr Sunak said any substantive changes to the business rates payment system would need further primary legislation. Parliament would have an opportunity to consider that legislation.<sup>23</sup>

Regarding the estimated costs, Mr Sunak stated that, although a specific figure could not be provided:

[...] HMRC’s initial scoping work will be done within its existing resources and budgets [and] will not, in general, involve the use of consultants.<sup>24</sup>

On the issue of frequency of payments, Mr Sunak did not provide a direct answer Mr McMahon’s question. However, he did respond to a question raised by John Redwood during second reading regarding the frequency of payments from businesses to the billing authority. Referring to the current system in which businesses could spread their rate payments over multiple instalments, Mr Sunak stated:

That right is prescribed in regulation—the Non-Domestic Rating (Collection and Enforcement) (Local Lists) Regulations 1989—so that flexibility is already in place and is taken up by many businesses. If there was to be any change to that, it would require this place to pass new regulations...<sup>25</sup>

At third reading, MPs reiterated the cross-party support for the bill.<sup>26</sup>

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- <sup>1</sup> HM Revenue and Customs's functions are set out in the Commissioners for Revenue and Customs Act 2005.
- <sup>2</sup> [Explanatory Notes](#), p 2.
- <sup>3</sup> HM Treasury, [Budget 2016](#), 16 March 2016, HC 901 of session 2015–16, p 46.
- <sup>4</sup> [Explanatory Notes](#), p 2.
- <sup>5</sup> House of Commons Library, [Business Rates](#), 19 December 2018, p 5. NB: Responsibility for setting the business rates multiplier is a devolved matter outside England.
- <sup>6</sup> *ibid*, p 6.
- <sup>7</sup> HM Treasury and Department for Communities and Local Government, [Administration of Business Rates in England: Interim Findings](#), 10 December 2014; and HM Treasury, [Business Rates Review: Terms of Reference and Discussion Paper](#), March 2015.
- <sup>8</sup> HM Treasury, [Business Rates Review: Summary of Responses](#), March 2016, p 4.
- <sup>9</sup> HM Treasury, [Budget 2016](#), 16 March 2016, HC 901 of session 2015–16, p 46.
- <sup>10</sup> [HC Hansard, 13 May 2019, col 46](#).
- <sup>11</sup> *ibid*, col 47.
- <sup>12</sup> *ibid*, col 46.
- <sup>13</sup> *ibid*.
- <sup>14</sup> *ibid*, col 48.
- <sup>15</sup> *ibid*, col 49.
- <sup>16</sup> *ibid*.
- <sup>17</sup> Local Government Association, [Non-Domestic Rating \(Preparation for Digital Services\) Bill 2017–19](#), 13 May 2019.
- <sup>18</sup> *ibid*.
- <sup>19</sup> *ibid*, col 54.
- <sup>20</sup> *ibid*, col 56.
- <sup>21</sup> [HC Hansard, 20 May 2019, col 523](#).
- <sup>22</sup> *ibid*.
- <sup>23</sup> *ibid*.
- <sup>24</sup> *ibid*, cols 523–4.
- <sup>25</sup> *ibid*, col 524.
- <sup>26</sup> *ibid*, cols 524–5.

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