



Business rates: relief for charity shops

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This note summarises the position on rate reliefs for charity shops. It also gives brief details of recent occasions when the policy has been reviewed.

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A. Rate relief for charity shops

Local authorities are required to give 80% rates relief on any property which is occupied by a charity and is wholly or mainly used for charitable purposes [*Local Government Act 1988*, section 43.] The authority has the discretion to extend rates relief for charities to 100% under section 47 of the 1988 Act. Most of the discretionary 'top up' has to be funded by the authority itself.

In order to qualify for rates relief, a charity shop must fulfil the following conditions:-

- It must be wholly or mainly used for the sale of goods donated to a charity; and
- The proceeds of sale of the goods (after any deduction of expenses) must be applied for the purpose of a charity.

[1988 Act, section 64(10)]¹

The first condition is designed to restrict relief to shops predominantly selling second hand goods. It is not intended that shops owned by charities which are to all intents and purposes trading commercially should be eligible for rates relief.

The phrase 'wholly or mainly' is not defined in the legislation and there is apparently no case law in terms of rating legislation to clarify the matter. Guidance from the Department for Communities and Local Government states that, in other circumstances, 'mainly' has been held to mean 'more than half'.² The guidance further notes that billing authorities take some or all of the following factors into account in determining whether a shop is 'wholly or mainly' used for selling donated goods:

- I. The percentage of floor space occupied by donated goods;
- II. The percentage of turnover and profit represented by sale of donated goods;
- III. The percentage of individual items sold which are donated goods.

Sometimes, use of the above factors is still unable to resolve the issue of whether or not a charity shop is eligible for rate relief. Such an assessment may not be straightforward because, for example, the majority of items on display in a shop might be donated goods but, in terms of value, the donated goods represent a smaller proportion of turnover. Where the position is not clear, the authority is advised to take into account the weight given to charitable and non-charitable uses of the hereditament (i.e. rateable premises).

Recent annual surveys of charity shops conducted by the magazine *Charity Finance* have found that, in a typical charity shop, some 87% of goods are donated.³

¹ In Scotland, similar provision was made under section 4 of the *Local Government (Financial Provisions etc) (Scotland) Act 1962*

² Office of the Deputy Prime Minister, *Non-domestic rates: guidance on rate reliefs for charities and other non-profit making organisations*, December 2002, <http://www.local.communities.gov.uk/finance/busrats/nndr/index.htm>

³ *Charity Finance charity shops survey 2007*, p4, <http://www.charityfinance.co.uk/news/137/sept07/steady.asp.htm>

B. Opinions and policy reviews

The Royal Institution of Chartered Surveyors' National Committee on Rating reported in 1996 [*Improving the Rating System*, generally known as the Bayliss Report]. The Committee observed:

Charity shops have come a long way since the first Oxfam shops were set up. Many charity shops are now seen as sophisticated operations, sometimes occupying premises on commercial leases, in direct competition with other shops. The trade of such charity shops is often in the "small business" category. It is arguable that it is unfair in such circumstances that they should benefit from relief whilst other businesses have to pay the full rate. Other businesses not only have to compete against charity shops for custom, but also have to pay higher rate bills than the charity shops [p 33].

The Committee noted that, prior to the introduction of the uniform business rate in 1990, the level of mandatory relief given to charities was 50%:

We accept that it could be difficult to draft legislation excluding charity shops from any scheme of rate relief applying to charities in general, but a reduction to 50% in the mandatory relief available to charity shops would adjust the overall balance.

The Bayliss Report therefore recommended that "Ministers should consider the extent of mandatory relief given to charity shops" [p 36].

On 28 July 1997 Nick Raynsford, a junior minister at the Department of the Environment, Transport and the Regions, confirmed that rates relief for charity shops would be looked at as part of the charity taxation review announced in the budget.⁴ A consultation paper, *Review of Charity Taxation*, was published on 9 March 1999 by HM Treasury and reported that views about charity shops were 'mixed'. The report said:

We recognise the value to charities of the business rate relief for their general premises. We also recognise the important part that charity shops play in raising funds and the contribution of business rate relief to making these shops viable. So, we have no plans to withdraw these reliefs. However, we also recognise the real concerns of small independent shopkeepers that business rate relief gives charity shops that sell new, bought in goods a competitive advantage. Many local authorities, charities and others told us that the rules about what constitutes 'wholly or mainly' are not clear, so that there is inconsistent treatment up and down the country. In deciding whether a charity shop 'wholly or mainly' sells donated goods local authorities take (certain) factors into account.

The report asked if local authorities and charities would welcome clearer guidance on the meaning of 'wholly or mainly' and, if so, what factors need to be taken into account. The revised guidance, which is referred to in the previous section, was issued in 2002 following

⁴ HC Deb Vol 299, c 43W

commitments in the local government finance green paper of September 2000⁵ and white paper of December 2001.⁶ The white paper also confirmed that a rate relief scheme for small businesses would be introduced.⁷

From time to time, the issue of rate reliefs for charity shops is raised in the House through question or debate, for example:

Mr. Alan Campbell: To ask the Deputy Prime Minister what representations his Department has received regarding the concessionary rate reduction allowed for charity shops. [165355]

Phil Hope: The Office of the Deputy Prime Minister receives on an intermittent basis correspondence both in favour and against the rate relief granted to charity shops. We have at present no proposal to change the rules governing rate relief for charities. However, as stated in the White Paper *Strong Local leadership—Quality Public Services* (2001), we will monitor closely the various rate relief schemes.⁸

⁵ DETR, *Local government finance: a green paper*, September 2000

⁶ *Strong Local Leadership – Quality Public Services*, Cm 5237, Part II, chapter 7, para 7.49

⁷ Subsequently introduced by the *Local Government Act 2003*

⁸ HC Deb 19 April 2004 c342W