



BUSINESS RATES REVIEW



SUBMISSION FROM THE BOOKSELLERS
ASSOCIATION IN RESPONSE TO THE CONSULTATION
FROM HM TREASURY

To: *HM Treasury*
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From:

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1 INTRODUCTION

1.1 The Booksellers Association welcomes the opportunity to give its views on HM Treasury's *Business Rates Review* Consultation document (March 2015).

BA membership

1.2 The Booksellers Association [the "BA"] is a trade association, based in London WC2, currently with 826 bookselling businesses in membership (of which 803 are independent bookshops covering 907 outlets), accounting in total for 4,597 outlets.

1.3 BA members cover a diverse range of different bookselling businesses - specialist bookselling chains (e.g. Waterstones and Blackwell); independents; large High Street chains with mixed businesses (e.g. W H Smith); supermarkets (e.g. Tesco, Asda and Morrisons); library and school suppliers; specialist internet booksellers; and the two national wholesalers (Bertrams and Gardners).

1.4 BA members sell to all markets (consumer – fiction/ non-fiction/ reference/ children's; academic – academic/ professional/ school/ English Language Teaching) from retail shops and over the internet in a variety of different formats (hardback, paperback, audiobook and ebook).

The BA

1.5 The BA helps its members to sell more books; operate from a lower cost base; improve competitiveness and productivity; network with others in the 'book world' and further afield. Finally, and most importantly, to represent their views.

2 STRUCTURAL REFORM

2.1 The Booksellers Association was delighted to learn from the Chancellor's Autumn Statement 2014 that all ratepayers will benefit from the continuation of the 2% cap on inflation-linked increases for business rates for a further year from April 2015; that the discount for lower value retail premises is increased from £1,000 to £1,500; and that the Small Business Rate Relief has been doubled. These measures really do make a difference, especially to physical booksellers who occupy expensive high street positions and have to compete against multinational book retailers, operating on a cost per square foot basis from far less expensive premises away from the high streets.

2.2 We very much appreciate the Government's decision to:

- Conduct a review of the future structure of business rates and to report by the Budget in 2016
- Try and improve the Business Rates' Administration.

2.3 In the internet age, multinational online retailers should not be able to shift costs and sales from country to country so that they obtain a competitive advantage over national businesses; neither should they be permitted to operate from huge warehouses way out of town that don't involve the very high business rates that high street operations are required to pay.

2.4 The present Business Rates' system is no longer fit for purpose. UK business rates are the highest commercial property tax in the European Union, at 4.1% of GDP. For every £1 in Corporation Tax, retailers pay £2.31 in Business Rates, compared to £1 to £0.44 for other industries.

2.5 Fundamental reform is needed, that is:

- Fairer to businesses across the UK; and
- Flexible enough to respond to the economic cycle.

2.6 We very much welcome consideration being given by the Government as to how the key stakeholders can work together to produce a more efficient and modernized system

2.7 We now go on to consider specifically the questions posed in your consultation document.

3 ANSWERS TO SPECIFIC QUESTIONS IN THE CONSULTATION DOCUMENT

3.1 What evidence and data can you provide to inform the government's assessment of the trends in use and occupation of non-domestic property?

3.1.1 In the book trade, we have seen a considerable shift from consumers making the book purchase in a physical shop to making the Discovery and Purchase online. Books were one of the first products to be offered for sale over the internet, helped by the fact that each book had a unique product identifier (the ISBN – the International Standard Book Number), we had a national comprehensive bibliographic database (Books in Print), and well established industry- wide electronic systems in the supply chain. Books were really attractive to internet retailers.

3.1.2 Since 1995, the number of independent booksellers in our UK high streets have halved, as the table *below* indicates:

Year	Total outlets - independent bookshops
Dec-95	1894
Dec-96	1846
Dec-97	1839
Dec-98	1798
Dec-99	1774
Dec-00	1714
Dec-01	1658
Dec-02	1613
Dec-03	1594
Dec-04	1582
Dec-05	1535
Dec-06	1446
Dec-07	1424
Dec-08	1350
Dec-09	1252
Dec-10	1159
Dec-11	1094
Dec-12	1028
Dec-13	987
Dec-14	939
May-15	907

3.1.3 In a BA survey, two main reasons were given for the decline of independent bookshops:

- Amazon
- Business Rates.

3.1.4 Two recent good examples of the effect of Business Rates on booksellers were published in *The Bookseller magazine* on 27th May 2015:

Watermark Books in King's Cross is to shut at the end of July.

In announcing the closure Farah Taylor, buyer and manager of Watermark Books, also warned the government it needed to review business rates for small businesses.

Watermark is closing so its parent company Lagardere Services Travel Retail UK & Ireland can "concentrate on building its duty free and fashion businesses", said Taylor. Relay, a convenience store in Cannon Street train station, also run by LS Travel, will also shut. Both shops will close their doors on 31st July.

Watermark was opened in March 2012, with Taylor, formerly Waterstones Islington manager, employing 10 staff.

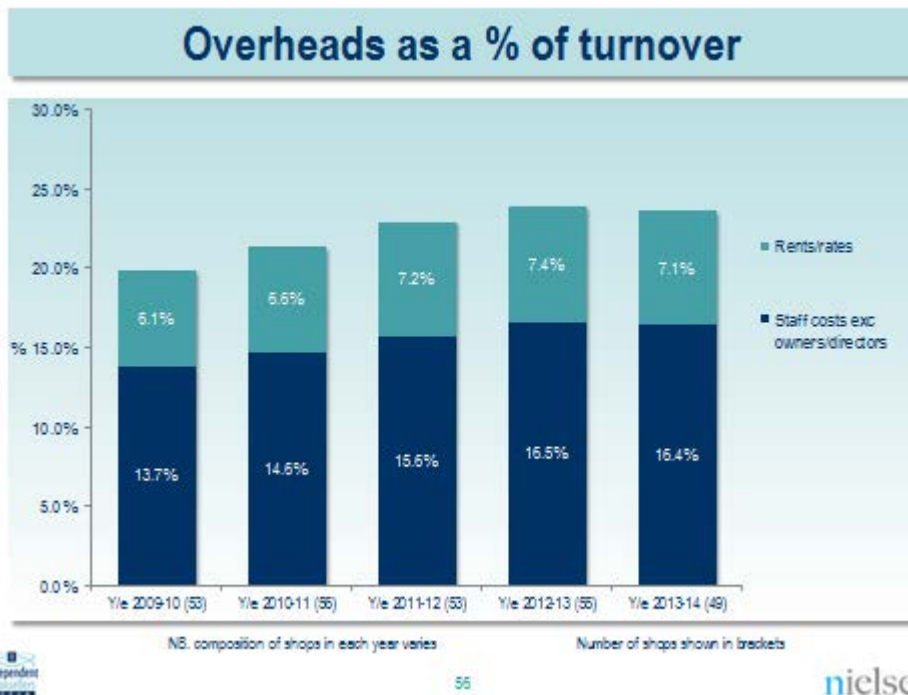
Announcing the closure of the shop today (27th May) Taylor said: "I would like to take this opportunity to thank my fantastic team of booksellers, wonderful customers, supportive authors and publishers for everything they have done to help me build Watermark Books into the well-loved and busy bookshop it is today.

"Anyone considering opening a bookshop in King's Cross, I would thoroughly recommend it. It's a burgeoning area filled with people who want to spend their time and money in a well curated store. The area is bustling and will continue to grow as Euston also begins to develop. However, our government also need to consider reviewing business rates for small businesses or we will be faced with a homogeneous London."

James Daunt, m.d. of Waterstones, said: " The remaining major distortion is the burden of rates which fall quite disproportionately upon shops. This is a particularly acute problem in those parts of the country where economic conditions are most difficult.

"Rates can only be made more equitable by an act of political will. This caused Amazon's recent move: they would have been caught by the "diverted profits tax" introduced by George Osborne last month and act in advance of anticipated changes to EU tax legislation. It is long overdue that rates are addressed by the government."

3.1.5 Rents and Rates now account for 7.1% of an independent bookseller's total sales, according to Nielsen, an independent market research company who carried out an investigation into booksellers' finances in 2014. Apart from staff costs, property costs now represent the second largest overhead for a bookseller.



3.1.6 The book trade suffers particularly from showrooming – whereby consumers go into a bookshop to inspect a book – perhaps even take a picture of the bibliographical details with a smartphone – and then go away to make the purchase online.

3.1.7 10 years ago 47% of sales were made in towns; now the figure is down to 39%.

3.1.8 According to Verdict, town centre vacancy rates have increased from – 11% in 2008 (Qu 4) to – 13% in 2015 (Qu 1).

3.2 Is there evidence to suggest that changing patterns in property usage are affecting some sectors more than others?

3.2.1 See 3.1 above.

3.3 What, in your view, does this evidence suggest about the fairness and sustainability of business rates as a tax based on property values?

3.3.1 What basically seems to be happening is that there are fewer retail properties in town centres having to pay higher Business Rates.

3.4 What evidence is there in favour of the government considering a move away from a property based business tax towards alternative tax bases? What are the potential drawbacks of such a move?

3.4.1 The tax on property as a percentage of all taxation represents 12.3% in the UK - against an OECD average of 5.4%.

3.5 What examples from other jurisdictions and tax systems should the government consider as part of this review? What do you think are the main lessons for the business rates system in England?

3.5.1 In the Netherlands, revaluation is conducted annually, with impressive results.

3.6 How can government use business rates to improve the incentive for local authorities to drive local growth?

3.6.1 We are not sure.

3.7 What impact would increased local retention of business rate revenue have on business growth? What would the impacts be on local authorities?

3.7.1 We are not certain that further local retention will really be beneficial. A Universal Business Rate across the nation provides booksellers with stability. It would be very difficult if each local authority provided considerable variations.

3.8 What other local incentives should the government consider to further incentivise business growth?

3.8.1 Enterprise Zones, Business Improvement Districts and the BRS schemes would seem to have merits.

3.9 Should business rates be reformed to make them more closely reflective of wider economic conditions and if so, how?

3.9.1 Absolutely. We think it really important that a new Business Rates scheme should take account of the wider economic conditions. Going back to the original rate of 34.8% would reduce the burden.

3.9.2 Also, an automatic system which matches the underlining costs of the bookshops needs to be considered.

3.10 If business rates remain a property tax, how do you suggest business rates could take into account the individual circumstances of businesses such as their size or ability to pay rates?

3.10.1 More frequent valuations would also bring the system closer to the pertaining economic conditions. This step would greatly redress so many of the issues connected with Business Rating and would produce very significant improvements in the Business Rating system, to the benefit of government, local authorities, the VOA and ratepayers.

3.10.2 The Dutch system of carrying out an annual revaluation is extremely interesting.

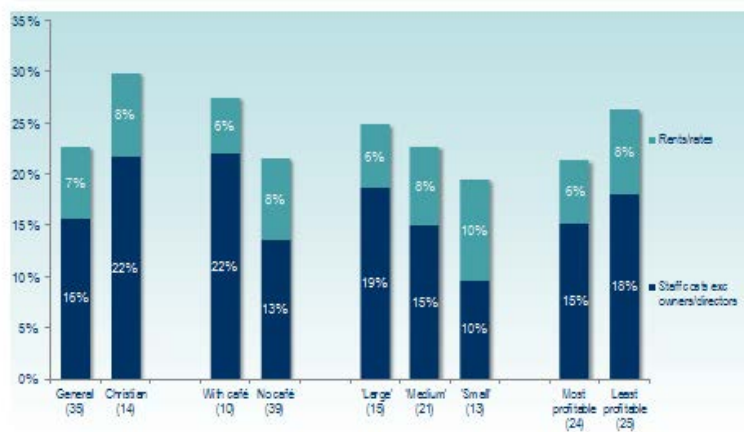
3.10.3 As the Valuation Office itself says: "*more frequent revaluations could improve fairness in the rating system by ensuring rates bills reflect relative changes in rental values*".

3.10.4 We would like the Government to carry out a cost benefit evaluation on either a revaluation every three years, or annually.

3.11 How does the proportion of total operating costs accounted for by business rates vary by the sector and size of a business?

3.11.1 The chart from Nielsen *overleaf* shows the rent and rates costs by type of bookshop.

Overheads as % of turnover, by shop type: y/e 2013-14



Number of shops shown in brackets

57



3.12 What is the impact of the business rates system on the competitiveness of UK businesses? Are there any particular impacts on SMEs?

3.12.1 Please see our answer to the next question.

3.13 How could the government better target support for SMEs given that the size of a company may not be reflected in the rateable value of a property it uses?

3.13.1 One way to immediately bring about some easing of the pressure points would be to exempt SMEs completely from the Business Rates scheme. As the interim findings make clear, 20% of properties in England accounted for around 80% of total rateable value as at March 2013.

3.13.2 Those businesses with rateable values below £12,000 contribute just 9.1 per cent, but given the welcome Small Business Rate Relief (SBRR) pay a smaller amount around 6 per cent. It makes little sense to assess 1.8 m properties only to exempt or reduce the rates collected from 1.1m of those with lower rateable values. Cost savings from the reduced administration should mean larger businesses wouldn't need to make up the difference.

3.13.3 At a stroke, removing small business from the financial and administrative burden of Business Rates would reduce hugely the volume of Appeal Cases the Valuation Office Agency ["VOA"] has to deal with.

3.13.4 The Government would need to define the criteria for an exempted small business. Would it be those with less than 250 employees?

14 Should investment in plant and machinery, energy efficiency improvements or other similar property improvements, be treated differently by the business rates system? If so what changes could be made?

3.14.1 We are not sure about this.

15 What evidence and analysis should the government take into account when evaluating the impact of and any changes to the range of reliefs and exemptions present in the business rates system?

3.15.1 It would be good if reliefs and exceptions that were no longer fit for purpose could be eliminated.

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