

The Impact of Business Rates on the Hospitality Sector April 2019

UKHospitality is the voice of a sector that generates £130 billion revenue each year. We represent over 700 member companies, operating over 65,000 venues across the UK.

- Hospitality employs 3.2 million people
- Contributes £39 billion to local and national tax revenues
- Represents 10% of UK employment

The importance of hospitality

The hospitality sector is currently revitalising high streets and driving employment and growth; but these businesses are under huge cost pressures. These venues in towns and city centres are fantastic social and communal assets as well as being significant employers, especially of younger people. They can be one of the most important pillars of the economy as the Government looks to grow the UK economy post-Brexit. This can only be achieved if these vital local businesses have the support from government they need.

Key Points

Business rates are one of the myriad of cost pressures on local business which, in recent years, have severely impacted the sector.

- Hospitality businesses¹ pay £3 billion in business rates
- The hospitality sector pays 11% of business rates yet makes up 2.5% of business activity
- If rates were equivalent to business activity, the sector's business rates bill would be £713 million
- As a result, businesses are overpaying on business rates by £2.4 billion – paying four times more than they should be

What does this mean?

- Business rates fail to reflect how business is conducted today, and fall disproportionately on the hospitality sector.
- In recent decades there has been a clear shift towards online sales and services, but the UK's tax system has not evolved to reflect this.
- A tax based solely on property will always disadvantage hospitality, because hospitality is not an 'efficient' user of property. The sector requires space and a relaxing environment, and many businesses cannot use their properties throughout the day, or even throughout the year, which leaves their property idle.
- Business rates do provide some degree of certainty over a limited period, but this reduces as revaluations become more frequent. This can result in relatively substantial and often unpredictable changes.

¹ Accommodation and food services sector and amusement and recreation activities

- Investment has been postponed, which has had a negative impact on staffing – in terms of total numbers, pay and training, and a deterioration in the state of Britain’s high streets, which has now reached crisis point.

The hospitality industry is essential for healthy high streets, but without fundamental reform of the rates system any efforts to reverse high street decline will be futile.

UKHospitality solutions

The business rates system is undeniably acting against property-based businesses – and that is being seen in the recent spate of closures and difficulties experienced by the hospitality and retail sectors. UKHospitality therefore calls on Government to:

Champion fairness by:

- Closely linking the rates system with the overall business level and profitability of a given business
- Targeting reliefs on sectors that currently overpay
- Reconsidering the application of State Aid rules
- Considering differential multipliers for certain sectors if reliefs are ruled out through State Aid rules
- Widening the scope of the Digital Services Tax to generate greater revenue to reduce the overall business rates burden or be used to offer targeted relief for over-paying sectors

Increase Growth and competition by:

- Developing a mechanism that allows a grace period after investment that prevents rates increases, potentially up to five years from the investment

Provide real certainty and coherence in policy by:

- Appointing a Royal Commission to reform business rates in the context of the wider business taxation system

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