Briefing Paper

NON-DOMESTIC RATING AND THE UNIFORM BUSINESS RATE

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INTRODUCTION

The extensively debated community charge (poll tax) is only part of a radical reform of the financing of local government throughout Britain. The Government's intention is to make local authorities more accountable to their local communities by making (almost) everyone pay (all or part of) the poll tax. It is hoped that this will encourage high turnouts at local elections of voters who wish to constrain "profligate" expenditure policies. According to this scenario, local accountability will be strengthened since very many more of those eligible to vote will pay the poll tax whereas only householders pay domestic rates. Hence people will no longer be able to vote for higher levels of service provision whilst avoiding the full financial consequences.

At the time it proposed the poll tax in 1986, the Government had also wished to strengthen the accountability of local authorities to indigenous local businesses. This was seen as necessary because over half of total rate income in Britain comes from non domestic rates paid by industrial and commercial concerns etc. That proportion is higher in Scotland (over 60 percent) and within individual authorities (up to three quarters). Since non domestic rate payers have no vote (and consultation is seen as largely ineffective), "profligate" local authorities can increase their spending by unfairly burdening businesses with ever higher rates and yet avoid any adverse electoral consequences. Once again, the problem is how to strengthen accountability. In effect the Government has abandoned the attempt, having decided simply to take business rate setting powers out of local government responsibility. Business will still be required to pay rates.

This Briefing Paper provides a review of the theory and evidence relating to the impact of rates on economic activity and a critical assessment of the Government's policy response. In particular it looks at the implications for local businesses and local authorities. Whilst the precise impacts will depend on a wide variety of measures to cushion the effects of the changeover from locally determined to nationally set business rates, it can be shown that they could be severe in particular localities and business sectors.

ARE RATES GOOD OR BAD FOR BUSINESSES?

The answer to this question depends on two supplementary questions. First, who actually pays the tax? Second, how are the tax revenues used? The answers are necessarily complex, depending on a wide variety of changing factors including the degree of competition in the market in which the firm operates and the precise mix of public expenditures adopted by local authorities.

(a) Supply side theory

In the formal or legal sense, rates are paid by businesses themselves but in the economic sense the final incidence of the tax can be much more widely spread. If a firm has some degree of market power it may be able to raise the selling prices of its products and so pass some or all of the tax on to its customers. This is called forward shifting and is more likely the greater the degree of monopoly power where customers are less able to seek alternative suppliers. Alternatively the firm may reduce the prices it pays for its inputs of land (i.e. rent), labour (i.e. salaries and wages) and capital (i.e. interest and dividends). This is called backward shifting and is more likely the greater the degree of monopsony power, where a firm is the sole or main buyer of a particular input, for example a particular labour skill. In both cases (monopoly and monopsony), market power will be greater the more localised the markets for outputs and inputs. Localisation is greater, the less tradeable the commodity produced by the firm (e.g. a service) and the less mobile are its factors of production both between occupations and between geographical areas.

It has sometimes been claimed that businesses often have enough market power to be able to pass on (forwards or backwards) most, if not all, of the rate burden so that a problem does not exist. Even if this were the case, someone still bears the economic burden of the tax and there could still be undesirable economic effects. Furthermore the Government's concern is not with the aggregate national effects of business rates but rather with their localised impacts.

Consider, in isolation, a local authority which increases business rate bills. All businesses in that authority face an increased tax bill so any firm (say a warehouse) knows that it can pass the tax forwards (through higher prices) or backwards (say by negotiating a lower rent reflecting lower profitability) to the same extent as other warehouses in the same administrative area. There may be short-lived problems caused by fixed term contracts for the supply of goods or rent levels but, if we assume all firms seek to maximise post tax profits, these warehouses will pass on the increased tax bill in the medium to longer term.

Now consider all local authorities, the competition between warehouses in different authorities and the extent of forward-shifting into price. If a local authority levies a higher rate bill than other authorities the warehouses in that area will only be able to pass on as much of the tax in higher prices as is incurred by warehouses in other areas. The result is that warehousing in the higher rated area becomes less profitable. Some firms at the margin of profitability may go out of business altogether with resulting job losses. Others may decide to move into lower-rated areas taking jobs with them. Most will stay put since it will cost more to relocate than the extra tax paid. However, these firms will have less profits either to plough back into the business or for distribution as dividends to shareholders. Reduced dividends will make it harder for firms to raise further external finance for investment and there will also be less retained profits for reinvestment. Since purchase of new plant and machinery usually entails increased employment, both in the firm itself (labour operatives) and in the other firms producing the equipment, then reduced investment means less jobs.

Moreover, new firms seeking a location will be more likely to decide not to set up business in the higher rated area so that gradually, over time, the local authority sees a decline in business investment and a loss of jobs.

Consider now the ability of firms to pass the tax backwards into lower input prices. Over time, as contracts fall due for renewal, firms may be able to renegotiate lower wages, rents etc. Rents would tend to be reduced most in higher rated areas. Full tax capitalisation would imply that users of land and property in high rated areas would not be discriminated against. Land owners would bear the economic burden of the tax.

However, if rates cannot be fully passed backwards (into lower rents etc) or forwards (into higher prices) then assuming nothing changes but business rates, relatively high rates lead to decline of the local economy and, for that reason, the Government believes that business rates are unsuitable as a locally variable tax.

The reader will note that we have concentrated so far on profits, investment and output, i.e. one that focuses on the supply of goods and services. Such a 'supply side' approach underlies all of the Government's major economic policies ranging from reform of personal income taxation to privatisation of hospital cleaning and catering services (contracting out). The underlying objective is to free constraints on the workings of competitive markets so that output and economic growth can be maximised. Whilst only one of many constraints on supply, locally variable business rates are seen by the Government as inhibiting the growth of local economies, particularly in depressed inner city areas. The inner city local authorities are caricatured as high-spending, high-taxing bastions of the New Left grass-roots socialism, hostile to capitalism and actively pursuing a new economic order. Capitalist business is therefore being driven out of inner cities by high business rates and unsympathetic planning regulations (c.f. Enterprise Zones where, amongst other things, business rates and planning "red-tape" have been abolished for an experimental period).

(b) Demand side theory

So far we have said nothing about how tax receipts affect the demand for national and local outputs from both the public and private sectors (the 'demand side' approach). Furthermore the analysis has been largely partial in that it has focussed on business activity per se; it has not been concerned with the knock-on implications for the distribution of income, interest rates, exchange rates etc. which come within the remit of a general equilibrium analysis and which ideally is required if the overall economic impact of business rates is to be assessed.

If local authorities simply levied a business rate and did nothing with the proceeds then the foregoing partial analysis would generally be valid. But, in fact local authorities use the tax revenues to finance public spending. Some of that spending will be on services of direct or indirect benefit to local firms. For example the local economy is dependent on an adequate infrastructure (e.g. roads) and on an educated workforce of which the private sector would make inadequate provision. Furthermore, local authorities make direct purchases of supplies and services from local firms as well as from those outside the area. Hence there is some equity in local business taxation and some direct feedback.

However, the bulk of local spending directly benefits local people not local firms and, whilst real income levels may be increased by the provision of local services, the extra local spending (or local multiplier effects) are probably quite small. Moreover it is the differences in local business rates which give the Government greater cause for concern. The extra spending created by a high-tax, high-spending authority will be spread much wider than the administrative area. This is particularly the case for the extra spending by individuals employed by the local authority in its provision of services. They will tend to buy goods produced outside their own area (or even outside Britain) so that local firms see little if any benefit. Hence otber local economies benefit at the expense of the relatively highly taxed areas.

One could argue that this doesn't matter. From a Keynesian perspective the extra spending benefits the economy as a whole. Higher business rates are partly financed from savings (retained profits) and, since local authorities spend all their income, total spending (aggregate demand) rises, leading to greater economic prosperity. Furthermore, area-specific subsidies could be used to offset any localised disadvantage (particularly by the payment of rate support grants, urban and regional subsidies to firms, etc).

The present Government denies the Keynesian thesis that extra public spending creates (or crowds in) extra jobs. Rather, it adopts the Monetarist thesis that public spending wholly or largely displaces (or crowds out) private spending and private sector jobs. This occurs directly (real resource crowding out) when the public sector buys up unused land, labour, capital and entrepreneurship during a recession but does not release it during the subsequent recovery. It also occurs indirectly (financial crowding out) when the public sector outbids the private sector for these scarce factors of production through inflation ("printing too much money") and/or higher interest rates (supposedly a necessary consequence of too high a public sector borrowing requirement). Both inflation and high interest rates are seen as inimical to private investment. Inflation inhibits investment by causing uncertainty about future profitability and higher interest rates increase the cost of borrowing and also reduce the present value of future returns from investment (i.e. it is assumed to be highly interest elastic).

The reader should, however, beware of seeing as synonymous Monetarist and supply side theory on the one hand and Keynesian and demand side theory on the other. Keynesian theory does accommodate partial crowding out effects but these are assumed to be limited in a recession and dominated by crowding in. Similarly monetarist theory is also a theory of nominal demand but, since aggregate supply is seen as largely inflexible in the shorter term, an increase in nominal demand is assumed to lead to higher prices rather than higher output.

So, according to the Monetarist rationale, higher public spending is at the expense of the private sector. This is exacerbated by the further assumption that it is the private sector that generates economic growth, the public sector tending towards inefficiency due to lack of competitive pressures and the scope for improvements in productivity being less than in the private sector. This general antipathy towards public spending necessarily requires the closer control and increased accountability of local government spending. The new system of local government finance will give central government direct control of about 80 percent of local authorities' income and eliminate local variations in business rate poundages.

(c) The evidence:

It is not possible to decide *a priori* which theory is correct. From the Monetarist supply-side perspective high and locally variable tax and public expenditure packages are particularly damaging to the local and national economies. From the Keynesian demand-side perspective they are particularly beneficial during deflationary periods (characterised by high levels of unemployment) and any very localised problems can be overcome by spatially differentiated government subsidies.

So what evidence is there to assess the impact of business rates? The foregoing has made clear that the main concern is with the local variability of the business rate. Hence aggregative studies are of little use in this respect but they do suggest that 80 percent or more of the tax is borne by reduced profits. This result appears intuitively correct in the short term given fixed price agreements (for rents, wages and salaries etc) and also in the longer term given the competitiveness of many markets. Hence it is difficult to pass the tax forwards or backwards. Furthermore there is also general agreement that firms receive little in the way of directly offsetting benefits in terms of local authority services.

All this is to some extent irrelevant because the proper comparison is not between business rates and no local tax but between business rates and an alternative tax that raised the same revenue. That comparison would require assumptions about the rate and structure of the alternative tax. Even if business rates were replaced by corporation tax there would have to be some changes to the latter in order to raise the same combined revenue. The results of the comparison would vary according to the assumptions made.

However, given that the main concern is with the local variability of rates it would appear to be possible to see if relatively high rate bills were associated with relatively low profits and investment and relatively high unemployment levels. The problem here is that many other factors besides business rates affect business prosperity in particular locations. For example an urban area may have a concentration of industries which are experiencing declining employment at both a national and a local level. Urban areas as a whole have seen a sharp decline in the real levels and shares of grant paid to them by central government and they have therefore tried to make up for the loss of revenue by increasing their rate demands. Hence relatively high levels of unemployment may become statistically associated with relatively high business rate bills without there necessarily being a direct causation from one to the other.

Moreover, it is differences in business rate bills which create an incentive for mobile economic activity to seek the least cost location. Hence, once all other factors influencing employment levels (industrial structure, urbanisation, regional policy etc) have been taken into account, the residual employment pattern should be correlated against rate bills per square metre of floor space.

Differences in rate bills will have to be significant and sustained over a period of years to offset costs incurred in moving. The optimal time to move will be when any major reinvestment in premises and/or plant is required. Existing firms may endure relatively high rates for years before operations become unprofitable and they close down or move elsewhere. Newly emerging firms will take into account all business costs (of which rates are only a very small proportion) in choosing their location so that the impact of differences in rates will be muted and take time to become apparent. Hence studies using short time periods for their analysis will tend to underestimate the impact on jobs. Time lags cannot be determined *a priori* and aggregative statistical analyses have to experiment with varying time lags until the best 'fit' (or statistical correlation) occurs between differences in rate bills and differences in employment/unemployment.

A piece of research which attempted to take account of structural factors (industrial and urban structure in particular) concluded that after "one of the most extensive studies of local employment change to have been undertaken in Britain......We are able to detect little if any influence of rates on the location of jobs" (Crawford et al 1985 p. 92). However this study was criticised (by Damania 1986) for ignoring time lags, for its neglect of theoretical issues and the fact that, in driving businesses out of an area, relatively high rate levels may themselves influence urban structure. Allowing for urban structure would therefore underestimate the impact of rates on business location. Other studies had been even more neglectful of methodological issues leading Bennett and Fearnehough (1987 p.25) to say that:

> "One can only express despair at the lack of rigour in most of these previous analyses and conclude that as yet there is little hard evidence to confirm or deny the adverse effects of non domestic rates on business. In this rather unsatisfactory situation there are two main ways forward: first, a more technically competent econometric analysis of short-term and long-term incidence of non-domestic rates using aggregative data; or second, a micro-level survey of individual businesses."

Bennett and Fearnehough (1987) undertake a very restricted micro-level survey of firms engaged in hand tools manufacture. Because of their close similarity in terms of size, production methods, capital intensity and product range the authors claim a tightly controlled sampling framework. One third of these firms are located in Sheffield, the remaining two thirds being widely distributed throughout Britain. The conclusion is that "the paper does provide considerable objective, as well as subjective, evidence of major distortions to competitiveness and to rates of return to capital in one high rated locality" (op cit p.35).

However, the authors do point out the smallness of the industry (approximately 105 firms) the low response rate to their survey (29 replies) and the caution necessary in generalising from their results.

Their analysis focuses on rate poundages and rate bills in total, relative to profits, to other production expenses and per employee. The total rate bill depends upon rateable value as well as rate poundage and it is known that rateable values vary widely between different areas so that looking at poundages is insufficient. Total rate bills will also vary according to the size of premises and the equipment they contain and in this respect it is therefore misleading to use number of employees as an indicator of firm size. Employees aren't rateable capital. Furthermore, a high proportion of rate bill to profits can indicate a high rate bill and/or low profits. Profits will tend to be low if productivity per employee is low and that depends upon the degree of capital intensity and the age of plant and machinery (generally, new equipment incorporates technological improvements and tends therefore to be more efficient). This in turn may be related to rate burdens but rates will not necessarily be the only influence on capital intensity. A high proportion of rates to other production expenses may simply reflect backward shifting of rates (e.g. high rates causing low rents) and a high proportion relative to employees may simply reflect a high degree of capitalisation per employee and/or the maintenance of largely redundant premises and plant which could be demolished or disposed of without significantly affecting production.

Bennett and Fearnehough's conclusions are strictly only valid for this one industrial sector and not necessarily applicable to other business sectors where market conditions (particularly the degree of competitiveness) vary. Nor does their evidence specifically prove that business rates were the primary influence on these firms' locational decisions. However, given the considerable amount of theory and some limited evidence about the impact of rates differentials on local employment, it would be heroic to claim that differences in rate bills had no adverse impact at all. The proper question is whether that impact is so substantial (and affects so many local authorities) that it requires a radical reform of local business taxation rather than a few temporary ad hoc measures aimed at protecting business in particular localities.

Restructuring business rates - the UBR

If business rates had been a central (rather than a local) government tax the perceived problem would have been resolved long ago. A major reform of corporation tax in the mid 1980s caused much less controversy than the forthcoming reform of business rates, despite the fact that the former raises much more tax revenue than the latter. The main cause of controversy is not just the local variability of business rates but also because they are the major source of own-tax revenue to local government.

To abolish them outright would mean either a massive increase in the local poll tax (which would have to more than double on average) and/or a large increase in central government grants (increasing by about half on average). Passing the whole of the financing burden onto the poll tax would be seen as grossly inequitable because it is unrelated to income, except within the narrow rebate range. It would also be seen as applying too strong a financial brake on local government services (the poor being unable to bear the extra financial burden of increasing local expenditures). Passing the whole of the financial burden onto central government grants would have implications for the levels of other central government taxes.

The Government wishes to avoid both outcomes. Since its main concern relates to the local variability of business rates (and the supposed impact on the growth and prosperity of local firms) the solution has been to impose a Uniform Business Rate (UBR) throughout England and Wales in 1990 and, ultimately, in Scotland. Rateable values will be determined as at present (with a revaluation in 1990) and the central government will set the UBR on an annual basis sufficient to constrain increases in yield to the rate of inflation. In this way the total real burden on businesses will be kept constant with the distribution of that burden being redetermined periodically at each revaluation (supposedly every five years).

This solution to local business problems creates new ones which may be equally as severe. Whilst local government as a whole is not being denied rate revenue from businesses, the UBR system will cause a considerable redistribution of that revenue. Local authorities will still be responsible for collecting business rates but they will then pay the revenue into a national pool. Funds will then be redistributed to local authorities as a given amount per head of adult population sufficient to exhaust the national pool. This will tend to disadvantage those authorities with relatively high proportions of young people (aged 17 or less) in their populations which will receive less per head of total population than other authorities with relatively older populations. In principle it is possible to offset this effect through the distribution of central government grants. However, as part of the radical restructuring of the whole system of local government finance, the method for assessing the expenditure needs of local authorities (and thereby making payments of grants) is to be simplified and, by implication, made less sensitive to differing needs. Furthermore, a population-based distribution of UBR revenues will bear little relationship to the distribution of local authorities' services to local business.

In setting a standard rate poundage the UBR will cause business rate bills to rise in previously low rated areas and to fall in previously high rated areas. The latter effect may be of benefit to the businesses located in inner city areas but the former effect will be disadvantageous to firms located in rural areas. This redistributional effect will also be accompanied by a revaluation of rateable values which will generally benefit the North of England relative to the South. Given that the last English revaluation was in 1973, properties in the depressed industrial areas of the North are overvalued whilst those in the prosperous South are undervalued. This is because rateable values still reflect rental levels in 1973 despite their relative rise in the South and fall in the North. The combined effect of introducing the UBR simultaneously with a revaluation in 1990 will be to cause a massive redistribution of rate burdens generally favouring businesses in Northern inner city areas and disadvantaging those in Southern prosperous outer urban areas. In the short term the speed of readjustment of rate bills will be dampened by a series of safety nets and other mechanisms such that the intermediate outcomes cannot be precisely determined in advance. Over the longer period, however, the final distributive impact will be substantial.

One is prompted to question whether such an administratively cumbersome procedure as the UBR is really justifiable. Since business rates will effectively become an assigned revenue from central to local government, there is little real distinction between the UBR financed grant and the other grants paid by central government and financed from other taxes. In practice central government will have the power to vary the real level of the UBR in accordance with its priorities regarding that tax and the revenue it produces for local government. Except for even more complicated arrangements giving small businesses relief against the UBR, the tax will be unrelated to profits and so still a burden on the marginal firm on the edge of financial viability. It will be a perpetual source of criticism and have little real justification for its survival other than that business rates have been in existence for a very long time. Merging rates with corporation tax would take account of ability to pay and achieve considerable economies in administration. If an assigned revenue was deemed necessary then a fixed proportion of corporation tax revenues could be turned over to local authorities.

The problem with this arrangement is that the absolute value of that proportion would vary reflecting business prosperity linked to the state of the economy. Local authorities would need to hold large balances in order to overcome such fluctuations in their finances possibly lasting several years or more. However, the cost of guaranteeing an (almost) precise sum from the UBR is to make payment of the tax unrelated to business profits and so perpetuate one of the major disadvantages of business rates. Making UBR payments allowable against corporation tax will not help those firms simultaneously facing low profits and fixed UBR payments.

The outcome will be largely the same for central government finances irrespective of whether the assigned revenue is derived from the UBR or from corporation tax. The latter would be administratively easier, cheaper to operate and inherently more justifiable than the former. Other than being tidy book keeping, there appears little if any rationale for separately identifying business rates within total business taxation. The cost of such tidyness is the administrative machinery required to collect the UBR and the regressive tax burden placed on business.

The Scottish dimension

There has been an intense debate in Scotland about the new systems of business rates and the impact on Scottish businesses. The feared scenario is as follows: from April 1989 Scottish rate poundages are indexed to the rate of inflation. A year later the UBR is introduced into England and Wales, reducing rate bills in northern England and increasing them in the South for the reasons noted earlier. Hence the English UBR will reduce rate bills in the very area of England most in competition with Scotland for the attraction of businesses. Meanwhile Scotland gets no such relief until harmonisation of the valuation process and introduction of a British UBR in 1995 at the very earliest. The currently higher rate bills in Scotland (for business premises comparable with those in England) will not only remain - they will be greatly exacerbated.

It has been estimated that the annual rates bill for businesses in Northern England will fall by about £700 million, although it will be phased in over five years or more. In addition the Scottish Council for Development and Industry has estimated that Scottish businesses would see a reduction of £300 million a year in rates liabilities if valuation practices were harmonised with those in England and Wales and if a revaluation took place throughout Britain.

At present the commercial sector is worst hit. Scottish offices, shops hotels and public houses pay more than double the rates of equivalent premises in England. Scottish manufacturing is less adversely affected since it benefits from industrial derating (currently 40 percent) which roughly brings rates burdens into line with those on industrial premises in England. There may be some tax capitalisation (e.g. lower rents) offsetting part of the higher rate burden. Nonetheless there will be an increased incentive for mobile private sector jobs in offices etc., not to locate in Scotland and this at a time when the service sector is seen as the main source of new jobs and economic growth. Efforts to encourage firms to locate in Scotland could easily be frustrated if business rates are a significant influence on firms' locational decisions.

Within Scotland itself, the eventual introduction of a UBR would tend to benefit businesses in currently highly rated areas particularly Strathclyde, Lothian, Shetland, Dundee and Stirling. Businesses in relatively low rated areas such as Borders, Dumfries and Galloway, Grampian and Orkney would tend to pay more in business rates. The actual outcome depends primarily on the relationship between the average business rate poundage in Scotland and the UBR in England and Wales at the time of full harmonisation. If the Scottish average rate is substantially greater than the UBR south of the border then most Scottish businesses will gain, those in Strathclyde etc., gaining much more than those in Borders etc. If the Scottish average rate and the UBR are close together fewer areas will gain. The precise outcome for individual Scottish businesses will also depend on the changes in valuation practices and whether Scotland's move close to England's or vice versa.

Freezing real rate poundages until harmonisation in 1995 will effectively prolong any adverse impact of high rate bills on firms' locational decisions. Moreover those bills will have been artificially inflated by any grant penalties incurred by local authorities because of "excessive" expenditures. Businesses in such authorities will therefore have to bear an extra rate burden until 1995. This is manifestly unfair since, having no vote, business ratepayers are not responsible for such excess spending.

Conclusions

One could perhaps accept the Governments' case that business rates are inappropriate as a locally variable tax because of the supposed impact on jobs etc. However, it is much more difficult to see how a national UBR overcomes the problem of lack of accountability between local authorities and businesses within their administrative areas. At best, the UBR means that local authorities will not be able to 'burden shift' between voting domestic rate/poll tax payers and non-voting rate paying firms. At worst the UBR completely severs the link between local business and local government. Local authorities will simply be collecting agents, passing UBR revenues onto central government. Nor will the UBR solve the problems caused by the lack of a relationship between profitability and liability for rates. Complaints from financially hard-pressed firms, facing fixed UBR payments, will continue.

The rational solution would be to scrap business rates and continue to tax firms in other ways (corporation tax, value added tax etc). Alternative proposals have included a local profits tax on firms but this would cause the same problems for firms' locational decisions as a locally variable business rate. The only way of re-establishing a truly accountable relationship between local authorities and indigenous businesses is to charge them directly for services rendered specifically to businesses. In this way they will see what they are getting for what they are paying. National business taxes can continue to be used to finance local services which benefit businesses indirectly (roads, education etc). This approach would be consistent with a supply-side philosophy and where local authority trade refuse and other business related services are increasingly being contracted out after competitive tendering.

The one outstanding problem created by abolition of business rates would be the clear acceptance that the poll tax is the only source of own tax income for local government. At present the Government claims that the UBR is a local tax because it is based on local property values. In fact it is an assigned revenue. Abolishing the UBR would highlight the need for another truly independent local tax based on property or personal incomes. This is the real reason that the Government has failed to follow the logical consequences of its own arguments which require business rates, to be abolished.

If (as is most likely) the UBR is retained, it cannot be taken for granted that the problems of local business taxation are finally resolved. There will be a continuing need for research to see precisely what is happening. It will be necessary to monitor the impact on rate bills of the various ad hoc transitional arrangements implemented separately for England and Wales and Scotland. Changes in valuation practices during the harmonisation exercise should also be monitored since they could affect particular types of business property in unforseen and perverse ways.

The interaction of the poll tax and UBR should also be investigated. For example a quarter of small businesses are run from the home and the fine detail of valuation could penalise them by requiring payment of both the poll tax and the UBR (on that part of the home assigned to business uses). Such an outcome would be perverse and contrary to current policy which allows an offset of business rates against domestic rates where part of the home is used for business purposes. This will not occur under the new system since the poll tax/community charge (which is to replace domestic rates) is not a property tax and so no relief will be given against it for the UBR. Such 'double taxation' of these emergent small firms would hardly seem desirable and so research is required to assess the extent of the problem and the effectiveness of any measures introduced to deal with it.

As a local tax, the UBR is a sham. Worse still the Government has failed to deliver its promise to relieve the rate burden on business. The UBR is unnecessarily complicated and expensive window dressing. It achieves little more than the increased subjugation of local to central government and a sharp spatial redistribution of the burden of business taxation. However, this could benefit Scotland quite substantially in the long run.

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