



**Non Domestic Rates
Revaluation 2007/08
Transitional Arrangements**



Background

Under existing legislation, the Scottish Assessors are responsible for revaluing all non-domestic property in Scotland every five years. The most recent revaluation took effect on 1 April 2005. The 2005 Revaluation resulted in the production of a new Valuation Roll which contains revised rateable values for all non-domestic properties in Scotland.

Key Aims and Purpose

The key aims of a Revaluation are maintaining stability, certainty for business and the continuation of harmonisation of valuation treatment and practice, north and south of the border. The purpose of the Revaluation is to update rateable values on non-domestic properties to more up-to-date rental levels. This creates a closer, fairer link between modern property values and the amount of rates payable by individual ratepayers.

The Rates Bill

There are two main factors which contribute to the bill of every non-domestic ratepayer; the rateable value of the property and the non-domestic poundage rate.

1. Rateable Values and Revaluation

The rateable value of every property is determined by the appropriate Assessor, who is independent of both local and central government. The rateable value is the Assessor's estimate of the annual rent which

that property would command on the open market. The methods used to value property have been subject to harmonisation between Scotland, England and Wales. The Scottish Assessors Portal <http://www.saa.gov.uk> provides details of rateable values for non-domestic subjects in Scotland.

2. The Poundage Rate

From 1st April 2007, the non-domestic poundage rate has been set at 44.1 pence for the year 2007-08. To calculate the rates bill for your property, you should multiply the rateable value by the poundage rate but remember that your rates bill will be affected if you are subject to the transitional arrangements, details of which are included in this leaflet.

From 1 April 2007, ratepayers who occupy non-domestic subjects with a rateable value of £11,500 or less will be eligible for a discount on the rates bill of between 5 per cent and 50 per cent. Ratepayers who occupy non-domestic subjects with a rateable value in excess of £29,000 from 1 April 2007 will be liable to pay a small supplement on the poundage rate (0.3p for 2007-08) to cover the additional costs of the Small Business Rate Relief Scheme. The supplement is excluded when calculating transitional arrangements.

Need for and purpose of transitional arrangements

Following the 2005 Revaluation those properties whose rateable values have increased by more than the Scottish average of 13.3% face increases in their bills and

these may be significant. The aim of transitional arrangements is to protect ratepayers who occupy such properties from sudden sharp increases in their bills in the period immediately following the revaluation, allowing them time to plan to accommodate the true bill over a longer period.

The transitional scheme

The scheme aims to combine simplicity with initial protection for those faced with significant real increases in bills. In most cases it limits increases in bills to 12.5% in real terms for non-domestic subjects and limits the decrease in bills of ratepayers to 10% in real terms.

This leaflet contains examples of how transitional arrangements and rates bills can be calculated under this scheme for the year 2007-08 and the phasing in of the true bill over the 3 year period for which the scheme is to last (until 31 March 2008).

Phasing in the true bill

The scheme strikes a balance between the need to give ratepayers time to plan for the change in bill following revaluation, and the need to ensure that ratepayers are paying a bill based on the true rateable value of the property they occupy as soon as practical after the revaluation.

Upper Transitional Limits

For all ratepayers the factor for increases is 1.160 derived from the 12.5 per cent maximum increase and the 3.1 per cent

change in the Retail Price Index representing inflation, i.e. $1.125 \times 1.031 = 1.160$.

Lower Transitional Limits

For all ratepayers the factor for decreases is 0.928 derived from the 10 per cent maximum decrease and the 3.1 per cent change in the Retail Price Index representing inflation, i.e. $0.90 \times 1.031 = 0.928$.

Examples

The following examples are illustrative only, to demonstrate how a 12.5 per cent real terms limit on increase or 10.0 per cent real terms limit on decrease in rates bill following revaluation between 2004-05 and 2005-06 is carried through to 2007-08¹.

The poundage rate and supplement, in pence, over the relevant years are as follows:

	2004-05	2005-06	2006-07	2007-08
Poundage	48.8	46.1	44.9	44.1
Supplement ²	0.30	0.45	0.40	0.30

Adjustments are phased out in the three years following revaluation, there will be no transitional adjustments in 2008-09 or 2009-10.

Example 1 (25% increase in rateable value)

2004-05 rateable value £20,000

2004-05 bill = £20,000 x 48.8p = £9,760

¹ In certain instances the limit can be in excess of the 12.5% increase and 10% decrease.

² Small Business Rate Relief Supplement is only paid by Scottish non-domestic subjects where the rateable value is £29,000 or more.

2005-06 rateable value £25,000

2005-06 nominal bill = £25,000 x 46.1p
= £11,525

In the first year after revaluation the bill is limited to a 12.5 per cent real increase, which is a 16.0 per cent actual increase after an inflation factor of 1.031 is applied. This is £11,322 (£9,760 x 1.160)

Therefore the 2005-06 transitional adjustment (TA) would be £11,322 - £11,525
= -£203

In 2006-07, TA is the TA in 2005-06 (in 2006-07 terms) x 2/3 = -£203 x (44.9/46.1) x 2/3
= -£132

In 2007-08, TA is the TA in 2005-06 (in 2007-08 terms) x 1/3 = -£203 x (44.1/46.1) x 1/3
= -£65

In 2008-09 and 2009-10 TA is zero.

The rates bill each year, including the adjustment would therefore be:

2005-06: £11,322

2006-07: (£25,000 x 0.449) - £132 = £11,093

2007-08: (£25,000 x 0.441) - £65 = £10,960

Example 2 (20% decrease in rateable value)

2004-05 rateable value £20,000

2004-05 bill = £20,000 x 48.8p = £9,760

2005-06 rateable value £16,000

2005-06 nominal bill = £16,000 x 46.1p
= £7,376

In the first year after revaluation the bill is limited to a 10.0 per cent real decrease, which is a 7.2 per cent actual decrease after

an inflation factor of 1.031 is applied. This is £9,057 (£9,760 x 0.928)

Therefore the 2005-06 transitional adjustment (TA) would be £9,057 - £7,376 = £1,681

In 2006-07, TA is the TA in 2005-06 (in 2006-07 terms) x 2/3 = £1,681 x (44.9/46.1) x 2/3 = £1,091

In 2007-08, TA is the TA in 2005-06 (in 2007-08 terms) x 1/3 = £1,681 x (44.1/46.1) x 1/3 = £536

In 2008-09 and 2009-10 TA is zero.

The rates bill each year, including the adjustment would therefore be:

2005-06: £9,057

2006-07: (£16,000 x 0.449) + £1,091 = £8,275

2007-08: (£16,000 x 0.441) + £536 = £7,592

Example 3 (25% increase in rateable value and subject in receipt of Small Business Rate Relief)

2004-05 rateable value £4,000

2004-05 bill = £4,000 x 48.8p = £1,952

2005-06 rateable value £5,000

2005-06 nominal bill = £5,000 x 46.1p = £2,305

In the first year after revaluation the bill is limited to a 12.5 per cent real increase, which is a 16.0 per cent actual increase after an inflation factor of 1.031 is applied. This is £2,264 (£1,952 x 1.160)

Therefore the 2005-06 transitional adjustment (TA) would be £2,264 - £2,305 = -£41

In 2006-07, TA is the TA in 2005-06 (in 2006-07 terms) $\times 2/3 = -£41 \times (44.9/46.1) \times 2/3 = -£27$

In 2007-08, TA is the TA in 2005-06 (in 2007-08 terms) $\times 1/3 = -£41 \times (44.1/46.1) \times 1/3 = -£13$

In 2008-09 and 2009-10 TA is zero.

Subjects with a rateable value of £4,500 or above but less than £5,750 are eligible for a discount on their rates bill of 30 per cent. The discount is applied to the full rateable value and is in addition to the TA. This gives discounts for SBRRS of £679, £674 and £662 respectively in 2005-06, 2006-07 and 2007-08.

The rates bill each year, including the adjustment and SBRRS discount, would therefore be:

2005-06:	£2,264 - £679	= £1,585
2006-07:	£2,245 - £27 - £674	= £1,544
2007-08:	£2,205 - £13 - £662	= £1,530

Example 4 (30% decrease in rateable value and subject contributes to Small Business Rate Relief)

2004-05 rateable value £100,000

2004-05 bill = £100,000 \times 48.8p = £48,800

2005-06 rateable value £70,000

2005-06 nominal bill = £70,000 \times 46.1p
= £32,270

In the first year after revaluation the bill is limited to a 10.0 per cent real decrease, which is a 7.2 per cent actual decrease after an inflation factor of 1.031 is applied. This is £45,286 (£48,800 \times 0.928)

Therefore the 2005-06 transitional adjustment (TA) would be £45,286 - £32,270 = £13,016

In 2006-07, TA is the TA in 2005-06 (in 2006-07 terms) $\times 2/3 = \text{£}13,016 \times (44.9/46.1) \times 2/3 = \text{£}8,451$

In 2007-08, TA is the TA in 2005-06 (in 2007-08 terms) $\times 1/3 = \text{£}13,016 \times (44.1/46.1) \times 1/3 = \text{£}4,150$

In 2008-09 and 2009-10 TA is zero.

Subjects with a rateable value of above $\text{£}29,000$ must pay a supplement on the basic poundage rate. In 2007-08 this supplement is 0.3p.

The rates bill each year, including the adjustment and discount would therefore be:

2005-06: $\text{£}45,286 + (0.045 \times \text{£}70,000) = \text{£}48,436$

2006-07: $[\text{£}70,000 \times (0.449 + 0.004)] + \text{£}8,451 = \text{£}40,161$

2007-08: $[\text{£}70,000 \times (0.441 + 0.003)] + \text{£}4,150 = \text{£}35,230$

Amendment to the Valuation Roll subsequent to 1 April 2005

The transitional bill would be recalculated to reflect the result of a successful appeal against the 1 April 2005 valuation.

Where a property increases in value from a date after 1 April 2005 as a result of a material change of circumstance, i.e. not as a result of revaluation, no phasing arrangements will apply to the additional rates arising. The increase in rates will be added in full to the notional rates bill from the date of the increase in rateable value. Where transition applies and the value of a property decreases from a date after 1 April 2005 the rates bill will be reduced in proportion to the decrease in the actual rates bill.

Splits, mergers and reorganisations

The scheme will apply in respect of properties which, with effect from 1 April 2005, are merged or split into separate subjects and which are formed from an entry in the valuation roll at 31 March 2005. Special rules will apply.

Changes in Occupation

Property in transition will continue in transition on a change of ownership or occupation.

Empty Property and Phasing

If a property has been empty at 1 April 2007 for a period of at least three months and providing it is not one of the classes of property exempt from the empty rate it will attract the national non-domestic rate for 2007-08 at 50 per cent of the normal rate for so long as it remains unoccupied. If the property is unoccupied and subject to transition the transitional rates bill will be 50 per cent of what would otherwise be payable if the property had been occupied.

Reliefs and Rebates

Where a ratepayer is entitled to a mandatory or a discretionary relief of rates payable for year 2007-08 the level of relief will be applied to the transitional rates bill.

Frequently Asked Questions

Do I have to apply for the phasing arrangements to be applied?

No. If the phasing arrangements should apply in respect of your property they should

be automatically taken into account in the calculation of your non-domestic rates bill, the details of which will be included in the rate demand note which you receive from your local authority. If you disagree with the basis of calculation of your bill you should contact your local authority.

What happens if my rateable value is decreased on appeal?

If you appeal successfully against the level of rateable value at revaluation (1 April 2005) the amended rateable value will be backdated to 1 April 2005. The rating authority will require to recalculate your rates liability, including redetermination of any transitional arrangements. If you have overpaid interest may be payable by the local authority on the amount refunded.

Do I qualify for transition if I occupy a property for the first time after 1 April 2005?

Yes. The scheme is designed to protect ratepayers from sizeable increases in non-domestic rate bills resulting from revaluation. If the property is entitled to relief at 1 April 2005 then you will share this relief for the number of days that you are charged rates.

Finding out more

Specific queries about your individual bill should be addressed to your local authority.

Further information about Non-domestic Rates and Revaluation 2005 is available at the Business Rates website on **www.scotland.gov.uk/businessrates**.

If you have any general enquiries about transitional arrangements, contact:

Scottish Executive
Business Rates Enquiries Section
Area 3-J (Dockside)
Victoria Quay
EDINBURGH
EH6 6QQ

Email: **Business.Rates.Enquiries@scotland.gsi.gov.uk**

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