

Business Rates - The transition scheme explanatory notes

About the transition scheme

The rateable values of business properties are subject to regular updating normally every five years, this is known as revaluation. All rateable values are reassessed at a general revaluation to ensure bills paid by any one ratepayer reflect changes over time in the annual rental value of their property relative to others. The latest revaluation came into effect on 1 April 2017 and updated rateable values to reflect the market as at 1 April 2015.

In some cases the revaluation process results in a large increase or decrease in the amount of rates a business has to pay.

How does transition work?

The Government have put into place a transitional relief scheme to phase in increases and decreases gradually over up to five years.

The transitional scheme sets percentage limits on the amount by which a property's business rate bill can increase or decrease in individual financial years, as set out in the table below. This is subject to an adjustment for inflation.

Limits on decreases						
Year		Small		Medium		Large
2017/2018		20%		10%		4.1%
2018/2019		30%		15%		4.6%
2019/2020		35%		20%		5.9%
2020/2021		55%		25%		5.8%
2021/2022		55%		25%		4.8%

Limits on increases						
Year		Small		Medium		Large
2017/2018		5%		12.5%		42%
2018/2019		7.5%		17.5%		32%
2019/2020		10%		20%		49%
2020/2021		15%		25%		16%
2021/2022		15%		25%		6%

Large is defined as properties where the rateable value as at 1st April 2017 is more than £100,000

Medium is defined as properties where the rateable value as at 1st April is more than £20,000 and less than or equal to £100,000

Small is defined as properties where the rateable value as at 1st April RV less than or equal to £20,000

Along with the percentage increase or reduction of the demand, an adjustment will be made for inflation. The inflation figure for 2018 / 2019 has been set by central government and is 1.03.

For subsequent years the inflation factor will be calculated by dividing the small business rates multiplier for the relevant year by the small business rates multiplier for the previous financial year.

To calculate whether there should be a transitional adjustment a comparison is made between the rates payable for 2017/2018 and the rates payable for 2018/2019. If the change is more than the limits set by the government we will add or deduct a transitional adjustment to the rates payable. Comparisons between rate liabilities will be made in subsequent years and transitional adjustments will be added or deducted until eventually the change is within the set limits and the rates liability can be calculated using only the rateable value and the relevant multiplier.

What do the words in the calculation on the bill mean?

Notional chargeable amount: This figure represents the full years rates to be paid for any given year. This is calculated by multiplying the rateable value of a property by the small business non-domestic rating multiplier for the relevant year. The small business rates multiplier for 2018/19 is 48.0p

Base liability: This figure represents the full years' rates payable for the previous year

Appropriate fraction: This is the formula used to calculate the limits on reduction or increases; it is the transitional limit (shown in table above) multiplied by the inflation factor.

Example 1. A large property (rateable value more than £100,000), rates bill is increasing and has a cap of 32% ,as a decimal this cap is 1.32; this figure is then multiplied by the inflation factor which then gives the appropriate fraction.

Appropriate fraction = 1.32 x 1.03 = 1.3596

Example 2. A small property (rateable value £20,000 or less), rates bill is decreasing and has a cap of 30%, as a decimal this is 0.70; this figure is then multiplied by the inflation factor which gives the appropriate fraction.

Appropriate fraction = 0.70 x 1.03 = 0.721

Supplement

For ratepayers who do not have their rate liability calculated using the small business rates multiplier a supplement is added to the amount payable after any transition adjustment has been calculated

The supplement is the difference between the two multipliers multiplied by the 2018/2019 rateable value of the property.

For 2018/2019 the standard multiplier is 49.3p and the small business rates multiplier is 48.0p, the difference is £0.013

For example if the rateable value of the property was £635,000, then the supplement would be $£635,000 \times £0.013 = £8,255.00$

How is the transitional adjustment calculated?

To calculate whether transition should apply the base liability multiplied by the appropriate fraction is compared to the notional chargeable amount.

If the notional chargeable amount exceeds the base liability multiplied by the appropriate fraction then the rate liability is increasing and the increase is subject to the limits shown in the table above.

If the notional chargeable amount does not exceed the base liability multiplied by the appropriate fraction then the rate liability is decreasing and the decrease is subject to the limits shown in the table above.

Any entitlement to small business rates relief is calculated after transition has been applied

Examples of a transitional calculation

Example 1

The following calculation shows how the amount of rates payable is affected by the transitional adjustment in 2018/2019 when a rate liability is increasing. The rateable value of a property on 31st March 2018 was £154,225.00

The following calculation is carried out to calculate the limit in the increase in rates payable.

Base liability = $£154,225.00 \times £0.466 = £71,868.75$ (Transitional Relief 2017-2018) =
£44,515.13

Notional Chargeable amount = $£154,225.00 \times £0.480 = £74,028.00$

Uplift (RV x 0.013) = $£154,225.00 \times 0.013 = £2,004.93$

NCA = $£74,028.00 + £2,004.93 = £76,032.93$

Appropriate fraction = $1.32 \times 1.03 = 1.3596$

Transitional Chargeable Amount = Base liability x appropriate fraction = $£44,515.13 \times 1.3596$
= $£60,522.77$ + uplift $£2,004.93$ = $£62,527.70$

Transitional Relief = TCA – NCA = $£62,527.70 - £76,032.93 = \mathbf{£13,505.23}$

The amount of the transitional adjustment is $£13,505.23$ which has reduced the increase in rates payable for 2018/2019 from $£76,032.93$ to $£62,527.70$

Example 2

The following calculation shows how the amount of rates payable is affected by the transitional adjustment in 2018/2019 if the rate liability is decreasing. The rateable value of a property on 31st March 2018 was $£10,500.00$.

The following calculation is carried out to calculate the limit in the reduction in rates payable.

Base liability = $£10,500.00 \times £0.466 + \text{Transitional Relief } 2017/18 \text{ } £5,276.81 = £10,169.81$

Notional Chargeable amount = $£10,500.00 \times £0.480 = £5,040.00$

Appropriate fraction = $0.30 \times 1.03 = 0.721$

Transitional Chargeable Amount - Base liability x appropriate fraction = $£10,169.81 \times 0.721 = £7,332.43$

There is no calculation for supplement as the rateable value is below $£51,000$

Transitional Relief = TCA – NCA = $£7,332.43 - £5,040.00 = £2,292.43$

The amount of the transitional adjustment is $£2,292.43$ which has increased the rates payable for 2018/2019 from $£5,040.00$ to $£7,332.43$.