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## Freeze on business rates makes sense

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THE criticism of Google, Amazon and even Marks & Spencer for seemingly trying to lower their corporation tax payments threatens to take the focus away from the real tax issue in retail – business rates.

For all the focus on how little Amazon pays in corporation tax, it is how little they pay in business rates that is really hurting the high street. Their business rate bill is negligible while Home Retail Group, the owner of high street rival Argos, pays £140m.

There is no complex tax avoidance scheme by Amazon to avoid paying business rates, their low payment is simply because they have little physical presence as a business compared to the 700 high street stores of Argos.

Therefore, if the Government is serious about making online companies pay taxes and also about saving the high street, it must focus on revamping business rates.

One of the reasons Amazon appears to pay little corporation tax is that its profit margins are wafer thin, reflecting the fact that online retailing is not yet as profitable as high-street retailing. In 2012, for example, the company posted a global operating profit of \$676m (£444m) on sales of \$61.1bn. That is a profit margin of just 1.1pc.

However, business rates have no relation to profitability – they are simply measured by the rentable value of a commercial property and inflation. This means that struggling high street retailers have been spending millions on business rates while start-up online retailers have been free of the tax. This imbalance threatens to distort the future of the retail industry and has united the chief executives of traditional UK retailers, such as Justin King at J Sainsbury and Terry Duddy at

Home Retail, in calling for change.

The Policy Exchange's intervention in the debate is significant because the think tank is influential with the Conservative party. It is proposing a two-year freeze of business rates, during which time policies towards the retail industry could be rethought and hauled into the twenty-first century. This is a sensible idea.

It is unrealistic to scrap business rates – they are one of the Treasury's top 10 sources of income – but if the burden is not reallocated then this tax threatens unintentionally, but irrevocably, to shape how and where Britain shops.