



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

28 June 2018

Rt Hon Nicky Morgan MP  
Chair of the Treasury Committee  
House of Commons  
London  
SW1A 0AA

Dear Nicky

The government recognises that business rates can represent a high fixed cost for some businesses. That is why we have taken repeated action to cut the burden of business rates, announcing reforms and reductions worth over £10bn by 2023. These reforms have delivered businesses' key asks and benefit all retailers. They include:

- switching the annual indexation of business rates from RPI to CPI from 2018, worth £4.1bn by 2023. This represents a rate cut every year which grows significantly over time;
- increasing the frequency of property revaluations so that bills are fairer and more closely reflect properties' current rental values by bringing forward the next revaluation by one year to 2021, and moving to three-year revaluations after that;
- making 100% small business rate relief permanent and increasing the threshold of the relief, taking 600,000 of the smallest business out of rates;
- increasing the threshold for the standard multiplier to £51,000, taking 250,000 properties out of the higher rate of business rates;
- continuing the £1,000 discount for small and medium pubs in 2018-19; and
- introducing a £3.6bn transitional relief scheme and an additional £435m of support for ratepayers facing bill increases following the 2017 property revaluation.

We concluded a fundamental review of business rates in 2016, and following stakeholder responses, decided to keep business rates as a property tax. Respondents to the review agreed that property based taxes were easy to collect, difficult to avoid, relatively stable compared to other taxes and had a clear link with local authority spending. They also raise revenue in a way that is less distortionary than some other taxes. There was no consensus on an alternative base, and even those respondents that put forward alternatives were clear that these tax bases were not without their own issues.

However, I have been clear that we need to find a better way of taxing the digital economy, and we are making progress on this issue. At Autumn Budget 2017 we published a position paper on corporate tax and the digital economy, with a further update at Spring Statement.

Those set out the government's view that international corporate tax principles need updating for the digital age to ensure they reflect the new ways businesses create value.

It is right that we make further progress on this issue before considering the implications for the wider tax system, including business rates, so that all businesses make a fair contribution to the public finances, and business rates continue to support the stability of local government funding.

A handwritten signature in blue ink, consisting of the words "Yours ever" on the top line and a stylized monogram "PH" on the bottom line.

PHILIP HAMMOND