Charity Shops

Background

1. The Rates (Northern Ireland) 1977 Order is the main piece of legislation governing the rating system. Article 41 of that Order provides for the identification or distinguishment in the Valuation List of properties used for public, charitable or certain other purposes. This enables those properties to avail of a 100% exemption from paying rates. Retailing in itself is not generally regarded as a charitable activity. However, the provisions contained within Article 41 (5) also extend the exemption to properties that are used for the sale of goods donated to a charity.

2. Radical change is not being contemplated, insofar as the full rates exemption available to charities is concerned; the Department recognising that a fundamental ‘regime change’ would amount to taking with one hand and somehow giving back with the other. Modest reform, however, is proposed for the treatment of charity shops.

3. In Britain, charity shops are automatically entitled to an 80% exemption, with a further 20% reduction available at the discretion of the local authority. Increasingly, local authorities are not opting to exercise this discretion. There are no statistics available to confirm the exact position, nevertheless it is clear that many, if not most, charity shops in Britain are paying 20% business rates.

4. In the South of Ireland any property occupied by an organisation established for profit (including charity shops) will be liable for local authority rates, though it is understood that in practice some local authorities will waive liability.

5. If it was decided to make charity shops liable for rates on the same basis of other commercial undertakings i.e. 100% liable, it is estimated that this would generate around an additional £3 m a year for government revenues or alternatively it could be used to reduce the overall rating burden by £3m for all non-domestic ratepayers. Similarly applying the 80% exemption used within Britain i.e. charity shops pay 20% rates, would see an increase in government revenues or a reduction in the rating burden of approximately £600k. This would equate to around £20 per week for a typical charity shop.

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1 The £3m figure represents a best estimate of the “charity shop” element of the £5.5m total cost of the exemption for the shop, showroom, supermarket as well as retail warehouse and retail outlet property class.
Outcome of the Review of Non-Domestic Rating

6. The 2015/16 consultation associated with the review of the non-domestic rating system revealed that there was no significant appetite for reducing the 100% exemption for bodies that occupy properties for public (i.e. public benefit) or charitable purposes. However, different views were expressed in relation to charities occupying premises for trading purposes i.e. charity shops.

7. There was a strong reaction from those associated with the charity sector in favour of maintaining the existing special treatment afforded to charity shops. This involved the Charity Retail Association launching the ‘More than a Shop’ campaign that included a petition signed by 18,500 people supporting no change being made to rate relief for charity shops. The main charities involved in the campaign also presented their case to the Finance Committee during the last mandate.

8. In essence, the main points being raised by charities related to the public, economic, and environmental benefits that charity shops deliver. Indeed, the point was made that any imposition of rates on charity shops would result in a direct reduction in the overall public benefit provided by charities i.e. it would be a tax on public benefit. In addition, charities stated that imposing rates would render many of their stores unviable, with the resulting impact on jobs, volunteering opportunities and environmental impact of more goods going to landfill.

9. The main arguments being presented in favour of changing policy are firstly, to move towards a situation in which everyone pays something in rates, a key theme that first emerged at the pre-consultation innovation lab that took in June 2015. Secondly, that charity shops are competing with rate paying retail businesses, are becoming increasingly commercial in their approach, and are both “growing in number” and “crowding out the High Street”.

Policy Proposal

10. As noted above, virtually all business organisations following the public consultation earlier this year thought that everyone should pay something. As matters stand, charity shops get the most generous treatment here compared to the rest of these islands.

11. However given the fact that many charity shops will have entered into long term rental agreements and will not have budgeted for any rates liability, it is proposed that existing charity shops continue to benefit from the 100% exemption until the next non-domestic revaluation, anticipated to be brought
into effect from April 2019. From this point on, it is the view of the Department that charity shops should incur a rating liability of up to 20% in order to satisfy the principle that ‘everyone should pay something’ and maintain a healthy mix in the high streets. Charities would still be expected to pay full rates pro rata on turnover related to goods that are bought in for re-sale.

12. There is also a related issue of charities occupying larger stores. The Department proposes capping relief for new charity shops, thereby discouraging charities occupying prime retail areas. It is proposed that the upper threshold for relief should be the same level of rateable value (NAV) which is planned for the retail and hospitality scheme: £25k. It would not prevent any charity shops getting relief but it would limit the amount of relief available for those choosing to occupy more valuable shops. Not only will this prevent encroachment but it will also serve to reduce relief on planned new charity superstores.

13. Finally, in order to discourage landlords getting ‘any old charity’ into their property on a short term and over-holding basis as a means of avoiding empty property rates, the Department wishes to secure the power to make the landlord liable in these limited circumstances.

Questions for Consultees

- Should charity shops be asked to pay a relatively small contribution to rates revenue?
- Should exemption be capped for charity shops at £25,000 NAV? Do you agree with proposal to make commercial landlords liable for rates on short term lettings to charities?