Empty Property Rates

Background

1. The review of non-domestic rating set out the current policy on vacant property rating. It explained that once a non-domestic property becomes vacant, it will receive 100% exemption for the first three months of that vacant period. After this period has elapsed, the property owner will only have to pay 50% of the occupied rates liability. The policy was introduced in 2004 and at that time largely mirrored the arrangements that applied in Britain. Policy here was evaluated in 2009 and it was decided to keep it at 50% for the time being in order to help property owners impacted by the economic recession.

2. Policy in Britain changed after 2008 and now owners of a vacant property there do not receive any relief beyond the first 3 months and incur the full 100% liability (90% in Scotland). The stated objectives for these changes were to increase:

   a. Competitiveness. Strengthening the incentive for owners to re-let or re-develop property that is empty will help to improve access to premises and so reduce business rents

   b. Efficiency. Strengthening the incentive for owners to re-let or re-develop property that is empty will also encourage the efficient use of land and property. This will help to reduce the need for new development on green field sites, and to bring forward opportunities to re-develop brown field land for housing and business property.

   c. Fairness. It does not make sense for other taxpayers to subsidise owners to keep properties empty. Reforms to empty property relief are intended to improve fairness in the tax treatment of owners of different classes of empty property by applying the same strong incentive to re-let or re-develop property to all owners, except in exceptional circumstances where more favourable tax treatment can be justified.

3. There are a series of exclusions that apply both here and in Britain and in these cases no rates are payable on empty commercial property.
4. The full cost associated with these is presented in the following table:

<table>
<thead>
<tr>
<th>Vacant Rating Sub Category</th>
<th>Cost £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial 3 month exemption</td>
<td>£2</td>
</tr>
<tr>
<td>The 50% relief</td>
<td>£25</td>
</tr>
<tr>
<td>Properties with an NAV &lt; £2k</td>
<td>£4</td>
</tr>
<tr>
<td>Various Exemptions</td>
<td>£13</td>
</tr>
<tr>
<td><strong>Total Vacant Rating</strong></td>
<td><strong>£43</strong></td>
</tr>
</tbody>
</table>

5. Vacant property rating was a subject that generated a wide range of views during the non-domestic review. Although many respondents supported maintaining the status quo, a significant body of opinion hold the view that vacant property rating does not go far enough to encourage owners to get commercial property occupied or redeveloped.

**Policy Proposal**

6. The Department holds the view that changes should be made to further incentivise the occupation of the many vacant properties. Although the objectives for the changes that occurred in Britain in 2008 are relevant here, the Department recognises that the circumstances that exist here are not the same and therefore a different approach is proposed. This is as follows:

- The initial 3 month 100% exemption should be ended and all vacant property irrespective of how long it has been vacant incur a rating liability of 75%, reducing relief from the current 50% to 25%.

- The current 100% vacant rating exemption for qualifying industrial hereditaments should be removed and factory buildings rated in a similar manner to all other vacant commercial property i.e. at 75%.

7. This latter category of property includes those that have been constructed or adapted in the course of a trade or business for one or more of the following purposes:

   a. The manufacture, repair or adaptation of goods or materials.
   b. The working or processing of minerals.
   c. The generation of electricity.

8. The Department recognises that there will be various reasons why these factories are lying vacant. This may include the fact that they are in ‘hard to let’ locations, are unsuitable for alternative purposes e.g. sub division/storage or have been abandoned for many years are and are now
derelict. The Department considers that even in these circumstances, there is merit in applying a rating charge in order to encourage something to be done with these properties. The Department recognises that this may lead to a number of properties being demolished in order for them to be removed from the valuation list, however it should be noted that such sites, if not redeveloped, could fall within the framework of a derelict land levy that is currently being assessed by the Ulster University's Economic Policy Centre.

### Questions for Consultees

- Are there reasons as to why vacant property locally should be treated differently to other regions?
- Should a 75% charge apply here?
- Are there other reasons why empty factories should not incur a vacant rating charge?