

PRIME MINISTER

NON-DOMESTIC RATE POUNDAGE 1991-92

In the attached minute, Mr. Patten recommends full indexation, rather than under-indexation, of the non-domestic (business) rate poundage for 1991-92. If implemented, business rate bills would rise, on average, by around 10.9 per cent next year.

The proposals have been agreed with the Chief Secretary and the Welsh Secretary.

Business in general has done well out of the new non-domestic rates system. The business sector made a lower percentage contribution towards the huge increase in local authority spending in 1990-91 than the general taxpayer (through grant) and the community charge payer. Business will also be better off next year than would have been expected under the old regime.

That said, there is likely to be a hostile reaction to full indexation of the non-domestic rate poundage next year. The date of indexation (September rpi) will coincide with more or less peak measured inflation. Moreover, many businesses will face still higher increases because of the transition provisions (to smooth the change to a single poundage and the revaluation). Some small businesses will see rises of up to 26 per cent next year (large businesses up to 31 per cent). That is quite a hurdle for the individual businesses concerned (though of course other businesses will see reductions in their rates bills).

Nonetheless, I recommend you support the proposals. Under-indexation in the first year would be an unfortunate precedent. It would simply transfer the burden of paying for local government from business to the general taxpayer. And it would in principle make it easier for business to accommodate high wage increases - though rates are only a very small proportion of business costs.

Content to approve the full indexation of the non-domestic rate poundage?

BHP

BARRY H. POTTER

9 October 1990

26% will

bankrupt many small

businesses. I think it is
5 have decided to take action if an artificial peak