



## BUSINESS TALK - THE BURDEN OF COMMERCIAL RATES

Business is fretful, facing many challenges at the same time, none more so than the control of operational costs, including commercial rates.

Regardless of the performance, size or type of operation, and unless your property is not rateable, this is a cost which occupiers of non-domestic property are obliged to provide for each year.

Why then are so many perplexed by questions such as, who is liable or how are your rates calculated?

In order to address the issue, it is useful to understand that commercial rates are an annual local tax levied on occupiers of non-domestic property. Your annual bill is calculated and collected by your local authority in order to part provide for the cost of delivering local services. How much you pay will depend on two distinct factors:

The **Rateable Valuation (RV)** on the property, which is set by the Valuation Office.

The **Annual Rate on Valuation (AVR)**, a multiplier figure which is set by your local authority each financial year. In short, this figure indicates the percentage of the total rateable valuation that you pay in commercial rates.

*(Estimate of Expenditure to Provide Services - Other Income) ÷ Total Rateable Valuation*

The AVR for Cork City and County Councils has remained at 74.05 and 74.75 respectively since 2009.

For example, the annual rates bill for a property with a RV of €100, located within Cork City Council's jurisdiction is:

€100 X 74.05 = €7,405

Your local authority sends your rates bill in February or March each year. This will be for the next financial year, for example March 2012 to February 2013. In certain circumstances an occupier may qualify for a rates refund where the property is vacant at the date of making the rate.

### Rateable Valuation: The Calculation

This figure represents the open market annual rental value of a property on a set date. For most parts of the country, including Cork City and County this date remains at 1st November 1988. This is applied in order to make your property relative to others on the valuation list.

In general properties are categorised and compared by the Valuation Office under headings such as location, type, size, title, lease details, purchase price, cost of improvements, construction cost and comparative local evidence previously entered on the valuation lists. Depending on the type of property additional considerations may also apply, for example method of measurement or turnover.

The rental value of the property is then assessed and a valuation certificate issued based

on these parameters and also taking account of any recent Court or Valuation Tribunal decisions.

The intended purpose of such a method was equity, however many older properties have not been revisited for many years. As a result, eventough they may serve a similar purpose to newer properties they may have a very different commercial rate attached.

### **My business is Suffering. Can I apply for my Rateable Valuation to be Lowered?**

Presently, the answer to this question is No. The rateable valuation cannot be altered because of changes in economic circumstances.

An application for revision needs to display strong evidence of a material change in circumstance, particularly in relation to the categorisation of the property or evidence of inaccurate details, in order to have potential for success. It should be noted that values can be ammended either upwards or downwards by the Valuation Office.

An application for revision can be made at any time by an occupier, person holding an interest, rating authority or an occupier of another property on the valuation list.

In most instances it is your local authority that applies for revision, in circumstances where you may have built, extended or improved your premises.

### **Changing Times**

How have the relevant authorities reacted or intend to address the issue of burden and affect of rates on business?

Their answer seems to start with proposals for revaluation. Which involves the production of up to date valuation lists of all commercial properties within the eighty eight local authority areas.

With the intention that such an approach will create a fairer relationship between current annual rent values and rates. This is no guarantee that rates will reduce for individual properties, simply that there will be more even distribution or balance to the assessment at a particular and more recent point in time. Some will rise others will fall.

However, there is no definitive answer as to when this process will be complete for the entire country. It was provided for under the Valuation Act 2001, and a programme of revaluation began in South Dublin County Council in 2005 and contiued with Fingal, Dun Laoghaire-Rathdown and Dublin City Council areas. Valuation Orders were signed, to commence the process for Waterford County and City together with Dungarvan Town Council in December last. It is anticipated that similar orders will issue for Limerick later this year.

However, in circumstances where, many businesses appear to be running simply to pay rent or rates and are struggling to the point of collapse, this slow delivery will be of little solace.

What business needs is something that will help now. Help them to be more competitive. Both national and local government, individually and combined have an important role to play in showing leadership and initiatiating resolute action that is necessary but beyond the resources or remit of individual business. Regulations and practices need constant re-examination to ensure they are not obsolete and that business can prosper. This cannot be said of the approach towards commercial property taxes.

Many landlords have come to understand the importance of working with good covenants, capable of a sustainable future, albeit at varied and reduced terms.

In a similar way, perhaps it is now time that there was more focus from local government on the longer term prosperity of business and jobs, more expedite action for revaluation and the introduction of more formal mechanisms for the application of fixed term rate relief schemes.

The alternative is to watch more business failure, the build up of more vacant property resultant in more pressure on ratable occupiers.

KMPC is a Cork based multi-disciplinary property consultancy. Our entire business is built on an ability to see property as an asset that must pay its way, be held accountable, add value to a business or portfolio and not drain on resources.

Our knowledge of the full property spectrum, combined with an in-depth experience of commercial portfolio structuring and management, differentiates our expertise and allows us to offer a single point of contact service that delivers solutions at enhanced values and financial outcomes at very competitive rates.

If you have any further queries in relation to the points raised in our article, feel free to give me a call personally, drop us a line or visit or web site for more information, we are always happy to help.

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