EXPLANATORY MEMORANDUM TO

THE NON-DOMESTIC RATING (DEFINITION OF QUALIFYING RETAIL, HOSPITALITY OR LEISURE HEREDITAMENT) REGULATIONS 2025

2025 No. 1093

1. Introduction

1.1 This explanatory memorandum has been prepared by HM Treasury and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Chloe McCarthy-Evenson and Marion Ando, Co-Deputy Directors for Business Rates and Devolved Tax, at HM Treasury confirm that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Katie Taylor at HM Treasury can be contacted by email at the following address with any queries regarding the instrument: katie.taylor@hmtreasury.gov.uk.

Part One: Explanation, and Context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument is made in exercise of the powers conferred by paragraph 10(9C) of Schedule 4ZA to the Local Government Finance Act 1988 (c. 41), as amended by Section 3 of the Non-Domestic Rating (Multipliers and Private Schools) Act 2025 (c. 12).

4.2 The instrument defines the qualifying 'retail, hospitality or leisure ("RHL")' hereditaments that will be eligible for new, lower business rates multipliers from 2026-27. These new multipliers will be created for qualifying RHL hereditaments in subsequent legislation laid after Budget 2025. Due to the reasons set out in paragraph 5.4 of this Explanatory Memorandum, this instrument is being laid in advance of that legislation.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England.

5. Policy Context

What is being done and why?

5.1 Non-domestic rates ("business rates") are calculated by multiplying the rateable value ("RV") of a hereditament (as determined by the Valuation Office Agency) by the applicable tax rate ("multiplier"). A hereditament is a taxable unit of non-domestic property. The small business multiplier applies to hereditaments with RVs below £51,000, and at the time of laying this Statutory Instrument, the standard multiplier applies to all hereditaments with RVs of £51,000 or more. If applicable, business rates reliefs are then applied to a hereditament's gross liability to reach the final business rates bill.

5.2 The 2025-26 RHL business rates relief scheme grants 40 per cent relief to eligible hereditaments up to a cash cap limit of £110,000 per business. The legislative default is for this relief scheme to end after every year. At Autumn Budget 2024, the Government therefore announced the intention to introduce permanently lower multipliers for RHL hereditaments with RVs under £500,000 from 2026-27, to provide certainty and support to the high street.

5.3 The rates for these new business rates multipliers will be set at Budget 2025, so that the Government can take into account the revaluation outcomes, as well as the economic and fiscal context. The Government will bring forward secondary legislation after Budget to make provision for lower multipliers for RHL hereditaments. This will include a Statutory Instrument prescribing the multiplier that will apply to a type of hereditament, and a Statutory Instrument calculating the rate of the new multipliers.

5.4 Subject to Parliamentary approval of these Statutory Instruments, the RHL multipliers will have effect from 1 April 2026. Ahead of implementation in the 2026-27 billing year, billing authorities may need to make arrangements to administer any new RHL multipliers. That includes developing and confirming processes and IT systems to accommodate new multipliers, and identification of RHL hereditaments that would be eligible for the new multipliers, based on the definition set out in this instrument. To facilitate these arrangements, this instrument is being laid in advance of Budget 2025.

What was the previous policy, how is this different?

5.5 Previously, like all other hereditaments within scope of business rates, RHL hereditaments paid either the small business or standard multiplier. In 2025-26, qualifying RHL hereditaments benefitted from 40 per cent relief up to a cash cap of £110,000 per business. However, this was a discretionary relief administered by Local Authorities based on non-statutory guidance published by the Ministry of Housing, Communities and Local Government.

5.6 This Statutory Instrument is part of a package of Statutory Instruments that will make provision for eligible RHL hereditaments' business rates liabilities to be based on new lower multipliers instead. This approach means that the definition of qualifying RHL also needs to be set out in legislation and that Local Authorities will determine whether a hereditament qualifies for an RHL multiplier based on that legislation, rather than solely relying on their discretionary powers.

5.7 However, the scope of hereditaments intended to be eligible for the RHL multipliers is broadly the same as the scope of the existing guidance for the discretionary relief. In line with the current policy, Local Authorities will consider the main purpose of the hereditament, and whether that is wholly or mainly to provide retail, hospitality or

leisure to members of the public visiting in person. This does not preclude shops, takeaways or other hereditaments that provide online RHL from being within the scope of the definition, as long as the purpose of the hereditament itself is for in person RHL. The legislation provides for specific exclusions from qualifying RHL. For example, financial, medical and professional services.

6. Legislative and Legal Context

How has the law changed?

6.1 The existing RHL relief scheme is granted through discretionary relief (under Section 47 of the Local Government Finance Act 1988) and awarded by Local Authorities based on guidance that the Government publishes. For 2025-26, this is available online.[1]

6.2 The Non-Domestic Rating (Multipliers and Private Schools) Act 2025 amended the Local Government Finance Act 1998 to enable the Treasury to prescribe lower multipliers for RHL hereditaments. Those amendments included a power to define qualifying RHL hereditaments that would be eligible for the lower multipliers. This instrument provides the definition of qualifying RHL hereditaments.

6.3 When RHL multipliers are provided for, Local Authorities will determine whether a hereditament is eligible for those multipliers by reference to this SI. The Government's intention is for the definition of qualifying RHL to broadly have the same scope as the guidance for the current RHL relief scheme.

Why was this approach taken to change the law?

6.4 The power to define qualifying RHL through secondary legislation provides flexibility for the Government to react to changing economic conditions in the future.

7. Consultation

Summary of consultation outcome and methodology

7.1 The Government has not formally consulted on this instrument because the definition of qualifying RHL set out in this instrument broadly mirrors the scope of the current RHL relief scheme. To ensure that was operationally achieved, the Government engaged with a trusted working group of Local Government experts during the drafting of this instrument.

8. Applicable Guidance

8.1 To aid Local Authorities with the interpretation of this instrument, accompanying guidance will be published on GOV.UK on 16 October 2025.[2]

[1] https://www.gov.uk/guidance/business-rates-relief-202526-retail-hospitality-and-leisure-scheme.
[2] https://www.gov.uk/guidance/business-rates-multipliers-qualifying-retail-hospitality-or-leisure.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because it amends an existing local tax regime. Publication of a full impact assessment is not necessary for such legislation.

Impact on businesses, charities and voluntary bodies

9.2 The impact on businesses, charities and voluntary bodies is that, if they are the ratepayer for a hereditament that meets the definition of 'qualifying RHL' in these Regulations, they will be eligible to be prescribed a lower business rates multiplier from 2026-27 (subject to the further secondary legislation mentioned above being approved by Parliament).

9.3 The legislation does impact small or micro businesses, if they pay business rates and meet the definition of 'qualifying RHL'.

9.4 This legislation impacts small and micro businesses in a positive way by making them eligible for a lower business rates liability, subject to further legislation as above. It does not place an additional administrative burden on small or micro businesses.

9.5 The impact on the public sector will be limited, as ratepayers that will be eligible for the lower RHL multipliers, as defined in this instrument, will predominately operate in the private (rather than public) sector. To the extent that the public sector is impacted, it will be impacted in a positive way, as (subject to further secondary legislation as above) this policy will result in lower business rates liabilities for qualifying hereditaments.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The instrument, which is in connection with a local taxation regime, is not subject to the duty to review regulatory provisions in secondary legislation in section 28 of the Small Business, Enterprise, and Employment Act 2015. This legislation will be monitored as part of HM Treasury's wider taxation policy, to ensure the new RHL multipliers are providing support to the appropriate hereditaments in the context of the wider economic landscape.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 The new RHL multipliers were first announced at Autumn Budget 2024. The Non-Domestic Rating (Multipliers and Private Schools) Bill 2025 amends the Local Government Finance Act 1988 to enable the new RHL multipliers to be established.

11.2 Subsequent legislation, after Budget 2025, will create and prescribe the new multipliers that, from 2026-27, will apply to 'qualifying RHL' hereditaments that are set out in this instrument.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020, or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").