EXPLANATORY MEMORANDUM TO

THE NON-DOMESTIC RATING (SMALL BUSINESS RATE RELIEF AND DEMAND NOTICES) (ENGLAND) (AMENDMENT) REGULATIONS 2026

2026 No. 17

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Ministry of Housing, Communities and Local Government and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Alison McGovern MP, Minister of State (Minister for Local Government and Homelessness) at the Ministry of Housing, Communities and Local Government confirms that this Explanatory Memorandum meets the required standard.

2.2 Michelle Warbis, SCS Grade 1 for Local Tax and Pensions, at the Ministry of Housing, Communities and Local Government confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Zoe Hawthorne at the Ministry of Housing, Communities and Local Government can be contacted by email at the following address with any queries regarding the instrument: ndr@communities.gov.uk. Alternatively, the department can be contacted by telephone: 0303 444 2674

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 Business rates bills are based upon the rateable value of property which appears in rating lists prepared by Valuation Officers[1]. The current Non-Domestic Rating (Small Business Rate Relief) Regulations 2023[2] provide up to 100% rate relief to ratepayers that occupy a single property with a rateable value of £15,000 or less where the ratepayer meets certain eligibility requirements.

4.2 This legislation amends the eligibility requirements where a ratepayer in receipt of Small Business Rate Relief expands into a second (or additional) property. The legislation extends the time period following expansion into an additional property that the ratepayer will continue to be eligible for Small Business Rate Relief on their first property – often referred to as the second property grace period. Once in force, the ratepayer will remain eligible for 36 months from the date of expansion into the additional property (providing other rules as to eligibility continue to apply). This will apply to ratepayers who expanded on or after 27 November 2025. Ratepayers who

[1] A Valuation Officer is a statutory officer responsible for compiling and maintaining a rating list. See sections 41 and 52 of the Local Government Finance Act 1988. They are officers of HMRC (see section 61 of the 1988 Act) and are supported by the Valuation Office Agency.

[2] See The Non-Domestic Rating (Small Business Rate Relief) (England) Regulations 2023 https://www.legislation.gov.uk/uksi/2023/1250/contents/made

expanded prior to this date will remain eligible for 12 months, as was the position prior to the announcement at Budget 2025.

4.3 The legislation also makes a small consequential amendment to The Council Tax and Non-Domestic Rating (Demand Notices) Regulations 2003[3]. The Demand Notice regulations specify the information that must be included in a Non-Domestic Rating demand notice issued by a billing authority to a ratepayer. The legislation amends the regulations consequential on amendments made to Schedule 7 to the 1988 Act by the Non-Domestic Rating Act 2023 (c. 53).[4]

Where does the legislation extend to, and apply?

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

4.5 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 Small Business Rate Relief provides up to 100% relief to ratepayers that occupy a single property with a rateable value of £15,000 or less where the ratepayer meets certain eligibility criteria. It is designed to ensure small businesses pay little or no business rates. Under the previous policy if a ratepayer expanded into an additional property, it would retain eligibility for Small Business Rate Relief on its first property for 12 months – referred to as the second property grace period. This was intended to give the ratepayer time to adjust to its higher cumulative rates bill (i.e. on both / all properties).

5.2 Small businesses and representatives of small businesses have called for an extension of the second property grace period on the basis that 12 months is not a sufficient time period for small businesses to adjust to the higher cumulative rates bill. The legislation extends the second property grace period to 36 months from the date of expansion and will apply to ratepayers that expanded into an additional property on or after 27 November 2025. This is intended to strengthen the incentive and support to aid small businesses to expand.

5.3 The small amendment to The Council Tax and Non-Domestic Rating (Demand Notices) Regulations 2003 does not change the current policy. It is consequential on amendments made to Schedule 7 to the 1988 Act by the Non-Domestic Rating Act 2023 (c. 53).

What was the previous policy, how is this different?

5.4 The previous grace period was 12 months after which rates would become payable. This policy was designed to incentivise small businesses to expand. Since its implementation small businesses have stated 12 months is not a sufficient time period to ensure the expanded business has become sufficiently profitable to afford the rates liability on both the first and second property. This legislation extends the aforementioned second property grace period to 36 months with the intention of

[3] See The Council Tax and Non-Domestic Rating (Demand Notices) (England) Regulations 2003, https://www.legislation.gov.uk/uksi/2003/2613/contents/made

[4] See Non-Domestic Rating Act 2023 https://www.legislation.gov.uk/ukpga/2023/53/contents

providing ratepayers additional time to ensure their expanded business is sufficiently profitable to afford the rates liability on both properties.

5.5 The policy in relation to Non-Domestic Rating Demand Notices has not changed. The amendment this legislation provides for is consequential on amendments made to Schedule 7 to the 1988 Act by the Non-Domestic Rating Act 2023 (c. 53).

6. Legislative and Legal Context

How has the law changed?

6.1 Paragraph 4(1) of Schedule 4ZA to the Local Government Finance Act 1988[5] provides for the calculation of a rates liability where Small Business Rates Relief applies. Paragraph 4(2) provides the Secretary of State with the power to set eligibility conditions for Small Business Rates Relief. Where a ratepayer meets the eligibility conditions as set out in the Regulations made by the Secretary of State the rates liability is determined using the formula as at paragraph 4(1) of Schedule 4ZA to the 1988 Act. The instrument amends the eligibility conditions for Small Business Rate Relief.

Why was this approach taken to change the law?

6.2 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 At Budget 2024, HM Treasury published its *Transforming Business Rates* discussion paper and invited representations from all interested parties and stakeholders on the priority areas set out within it. This included "the impact of losing Small Business Rate Relief on expansion into a second property".[6] A response to the discussion paper was published on 11 September.[7] HMT engaged with 261 attendees across 20 roundtables, with additional meetings held with ministers and officials, representing 230 organisations. 161 pieces of written evidence were also received from 141 stakeholders. Stakeholders spanned a range of sectors including Retail, Hospitality and Leisure (RHL) Representative Organisations, non-RHL representative organisations, businesses, agents and advisors, and local authorities.

7.2 The government response notes around 20% of respondents raised Small Business Rate Relief as an area of the business rates system in need of reform. Amending the eligibility requirements in relation to a second property were raised to enhance the investment incentive offered by the grace period. Providing a longer grace period was raised as beneficial as it gave expanding small businesses more time to adjust to a higher cumulative rates bill once the Small Business Rates Relief eligibility ended, further strengthening the investment incentive offered.

[5] See Schedule 4ZA, Local Government Finance Act 1988
https://www.legislation.gov.uk/ukpga/1988/41/schedule/4ZA
[6] See *Transforming Business Rates,* HM Treasury, 30 October 2024,
https://www.gov.uk/government/publications/transforming-business-rates
[7] See *Transforming Business Rates – Interim Report,* HM Treasury, 11 September 2025
https://www.gov.uk/government/publications/transforming-business-rates-interim-report

8. Applicable Guidance

8.1 The systems to deliver Small Business Rate Relief are well established and implemented by existing staff working on business rates in local authorities. The Department does not intend to issue formal guidance on the changes to the Small Business Rate Relief but will work closely with local government on the changes, and update business facing information on GOV.UK.

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 a local taxation regime and amendments to any tax are excluded from the definition of regulatory provision.[8]

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is that those eligible for Small Business Rate Relief will maintain their Small Business Rate Relief on their first property for 36 months, should they choose to expand into additional properties on or after 27 November 2025.

9.3 The legislation does impact small or micro businesses. No specific action is proposed to minimise regulatory burden on small businesses. The basis for this decision is that small or micro businesses are more likely to only occupy one property and therefore more likely to be eligible for Small Business Rate Relief. The legislation will extend the second property grace period to 36 months, for businesses expanding into additional properties on or after 27 November 2025. This is to the benefit of relevant small and micro businesses and will be automatically applied to the business rates liability of these businesses by local authorities.

9.4 The impact on the public sector is that rate bills for eligible properties will be determined using the Rules in these Regulations. The government will compensate local government for the loss of income created by providing Small Business Rate Relief to eligible businesses.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is that the government continues to keep the administration of the business rates system under review.

10.2 The instrument does not include a statutory review clause as provisions imposing, abolishing or varying any tax are excluded from the duty to review regulatory provisions.[9]

[8] Definition of Regulatory Provision, Better Regulation Framework, Guidance, September 2023, https://www.gov.uk/government/publications/better-regulation-framework

[9] See Section 28(3)(a)(i) of the Small Business, Enterprise and Employment Act 2015, https://www.legislation.gov.uk/ukpga/2015/26/part/2/crossheading/secondary-legislation-duty-to-review

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

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").