EXPLANATORY MEMORANDUM TO

Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2022

S.R. 2022 No. 124

1. Introduction

1.1. This Explanatory Memorandum has been prepared by the Department of Finance to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2. The Statutory Rule is made under paragraphs 5 and 6 of Part 1 of Schedule 12 to, the Rates (Northern Ireland) Order 1977 (S.I. 1977/2157 (N.I. 28)) and is subject to the negative resolution procedure.

2. Purpose

2.1. These Regulations prescribe a new decapitalisation rate ("decap rate") for non-domestic hereditaments as part of the 2023 rating revaluation.

2.2. Regulation 1 contains the citation and commencement provisions

2.3. Regulation 2 defines certain expressions which are used in the Regulations.

2.4. Regulation 3 provides for the Regulations to apply for the purposes of any NAV list coming into force on or after 1st April 2023.

2.5. Regulation 4 prescribes the two decap rates and specifies the classes of hereditament in respect of which these rates are to be used for valuation purposes. The lower rate of 2.27% applies to church, educational and healthcare hereditaments and the higher rate of 3.4% applies to any other case where the contractor's principle is used.

2.6. Regulation 5 revokes the Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2015 ("the 2015 Regulations") with savings.

3. Background

3.1. All non-domestic properties are valued for rates by reference to an estimate of rental value but as some of these properties are rarely rented it is necessary to value them with reference to construction costs. The decap rate is the conversion factor needed to derive an annual equivalent or rental value from the depreciated construction cost estimate.

3.2. The current decap rates were set for the 2015 rating revaluation and subsequently remained unchanged for 2020 revaluation. There are two rates; a standard decap rate for most specialised properties and a lower decap rate for education, healthcare, church properties. These rates are currently set, and applied in the context of the 2020 valuation list, at 4% and 2.67%.

3.3. All parts of the UK are taking forward a revaluation exercise for 1 April 2023. Wales and England are valuing properties on the basis of 1 April 2021values and Scotland are valuing properties on the basis of 1 April 2022 values. The Department implemented legislation in September 2021 to allow for properties here to be valued against a 1 October 2021 date for the 2023 revaluation.

4. Consultation

4.1. The Department undertook a consultation in October 2021 to those stakeholders directly or indirectly affected by the decapitalisation rate. The consultation sought views on matters to be taken into account of in the setting of the decapitalisation rates.

4.2. Wales, who have an earlier April 2021 valuation date undertook consultation on the decapitalisation rate in a similar form to our consultation between March and June this year. England opted not to consult on the issue of decapitalisation rates for the 2023 revaluation. Scotland with a later valuation date of 1 April 2022 are also consulting on this issue.

5. Equality Impact

5.1. There are no equality impact implications as this rule is technical.

6. Regulatory Impact

6.1. A Regulatory Impact Assessment was not carried out as this is a technical market device linked to rating valuation assessment.

7. Financial Implications

7.1. The decapitalisation rate is one element that applies for complex rating valuations on hereditaments which don't typically attract a rental value. Assessments for those hereditaments to which the rates applies will also be determined by increases or decreases in construction costs and land values.

8. Section 24 of the Northern Ireland Act 1998

8.1. There are no section 24 implications in respect of this Rule which is a technical valuation device within the taxation system.

9. EU Implications

9.1. There are no relevant residual EU implications in respect of the Rule.

10. Parity or Replicatory Measure

10.1. These Regulations are required as part of the Northern Ireland non-domestic revaluation exercise in 2023. The rest of the UK are currently in the process of carrying out similar revaluation exercises.

11. Additional Information

11.1. Not applicable.