



## **ACS Submission: House of Commons Treasury Select Committee: Tax After Covid-19**

ACS (the Association of Convenience Stores) welcomes the opportunity to submit evidence to the House of Commons Treasury Select Committee and its inquiry considering the implications for tax policy following Covid-19. ACS represents 33,500 local shops and petrol forecourts including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Costcutter. Further information about ACS is available at Annex A.

### **Impact of Covid-19**

Covid-19 has reaffirmed the value of local shops in supplying essential products and services to communities that would otherwise lack provision. The convenience sector provides groceries and services within all types of rural (37%), suburban (26%) and urban (37%) communities<sup>1</sup>. Local shops often trade in isolated locations (38%) providing the only shopping option for the local community and shops trading in residential areas can serve significant populations, most typically from small parades (42%)<sup>2</sup>.

The impact of Covid-19 on individual stores varies greatly depending on trading location. Many rural and neighbourhood stores have seen uplifts in sales but the outbreak is proving particularly challenging for stores in city centres, high streets, petrol forecourts and transport hubs more reliant on passing trade. Some stores in these locations are experiencing significant sales declines and require policy support to retain business viability and jobs within these exceptional times.

**For more information on this submission, please contact Steve Dowling, ACS Public Affairs Manager, via [steve.dowling@acs.org.uk](mailto:steve.dowling@acs.org.uk)**

### **Business Rates**

#### **Covid-19 Business Rates Relief**

The introduction of the business rates relief holiday for one year has been essential to supporting retailers to continue trading during Covid-19 and manage additional operating costs. We urge the Government to consider a tapered removal of Covid-19 business rates support to prevent sudden spikes in business costs.

#### **Incentivise Investment**

The business rates system needs to be reformed to incentivise investment. We recommend that the Government considers introducing a scheme delaying increases in business rates bills for two years, similar to the Scottish Government's Business Growth Accelerator Relief.

Currently when retailers invest in new services or facilities to improve their properties and offer to the local community, they receive higher business rates bills. This is specifically a problem where stores are extended or for internal plant and machinery items including

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<sup>1</sup> ACS Local Shop Report 2019

<sup>2</sup> ACS Local Shop Report 2019

CCTV, fire safety and air conditioning units<sup>3</sup>. Higher business rates bills can deter investments, reducing economic activity and preventing the positive benefits of store improvements from being realised, such as increased energy efficiency or reduced crime.

### **Protect Reliefs**

The business rates system has several associated relief schemes in place, indicating the maturity of the tax to account for different property characteristics and uses. We welcome the extension of small business rate relief scheme to premises with a rateable value up to £50,000. Small business rate relief is essential to many local shop owners; 72% of independent convenience stores benefit from some form of relief and 59% indicate the primary benefit is the ability to continue trading<sup>4</sup>.

Policies on business rate reliefs should be maintained at the national level and where possible issue automatically based on rateable value thresholds. Reliefs should also remain not subject to local or national business conditions. Non property-based criteria for access to reliefs would also undermine business planning by enabling eligibility for reliefs to vary suddenly.

### **Account for the Digital Economy**

Covid-19 has accelerated the well-documented rise of online retailing: reform is required to both improve the parity in tax revenue between traditional bricks and mortar retail businesses and online retailers and support the viability of high streets and local parades. Recent Select Committee reports from MHCLG<sup>5</sup> and HMT have highlighted two possible options worth exploring further<sup>6</sup>.

An online sales levy could be applied to the sale of physical goods sold online that do not interact with physical retail space. It is estimated that a 2% levy on physical goods sold online would raise £1.5billion that could be used to offset the burden of business rates on physical retail premises<sup>7</sup>. The levy would include a sales threshold to exempt small online retail businesses.

Alternatively, a new turnover-based rating methodology for the warehouses of online retailers could be introduced. This could replicate the receipts and expenditure and fair maintainable trade methodologies used for petrol forecourts and ATMs. Applying a similar rating methodology to online warehouses would better reflect the value of these premises in the context of a changing retail market and economy.

### **Employment Taxation**

The convenience sector is comprised of 46,000 local shops, employing over 365,000 people in communities across the country<sup>8</sup>. Convenience retailers supply high quality opportunities at the lower-paid end of the labour market, providing local, secure employment with genuine

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<sup>3</sup> [How non-domestic \(business\) properties are valued](#) Valuation Office Agency

<sup>4</sup> ACS Voice of Local Shops Survey: August 2019

<sup>5</sup> [High Streets and Town Centres in 2030](#) House of Commons Ministry of Housing, Communities and Local Government Select Committee. February 2019.

<sup>6</sup> [Impact of Business Rates on Business](#) House of Commons Treasury Select Committee. October 2019.

<sup>7</sup> [Online retailers should pay new sales tax to support the high street, Tesco CEO says](#) Telegraph. 13 May 2019.

<sup>8</sup> ACS Local Shop Report 2019

flexibility for both employers and employees. Employment costs are escalating rapidly and policy interventions are needed to enable retailers to continue providing quality jobs based on employment contracts.

### National Living Wage

The predominant cause of escalating employment costs for retailers is the National Living Wage and its target to reach two-thirds of median earnings by 2024. Figure B<sup>9</sup> demonstrates the impact the rising rate has on convenience retailers and how they are responding to rising wage costs by reducing paid working hours in their business or taking on more hours themselves. The scale of the economic challenge posed by Covid-19 requires a careful assessment of this target, which is 'subject to sustained economic growth'. Extending the target beyond 2024 is therefore worthy of consideration.

Figure B: Most Common Retailer Responses to NLW Increases

	2016	2017	2018	2019	2020
One	Reduced working hours (74%)	Reduced working hours (78%)	Reduced working hours (75%)	Reduced working hours (72%)	Increased retailer working hours (64%)
Two	Reduced staff numbers (67%)	Take less profits (78%)	Increased retailer working hours (60%)	Take less profits (64%)	Take less profits (56%)
Three	Increased retailer working hours (65%)	Increased retailer working hours (65%)	Take less profits (54%)	Increased retailer working hours (52%)	Reduced working hours (48%)

### Employment Allowance & Employer NICs

The Government cannot continue to make commitments that significantly increase businesses' employment costs without offering some concessions to help mitigate them. The 2020 Budget usefully increased the Employment Allowance from £3,000 to £4,000 for 2020/21 but this is now subject to state aid rules and retailers with a Class 1 secondary National Insurance liability of £100,000 or more in the preceding tax year are now ineligible<sup>10</sup>. As a per business allowance it does not allow retailers to recoup much of the costs associated with a rise in the National Living Wage.

Changes to employer NICs would deliver more meaningful savings and help manage the total cost of employment for retailers. Raising the starting point for payment of secondary thresholds would enable many local shops to support employment opportunities. Figure C shows the impact of the Employment Allowance change and suggested Employer NICs policy, assuming employment levels and productivity remain the same.

<sup>9</sup> ACS National Living Wage Surveys: 2016 - 2020

<sup>10</sup> [The Employment Allowance \(Excluded Persons\) Regulations 2020](#)

Figure C: Modelling Employer NICs Reform

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	<i>NIC Threshold - Over £166.01. Employment allowance - £3000</i>	<i>NIC Threshold - Over £261.6 (NLW at £8.72)</i>	<i>NIC Threshold - Over £275.1 (NLW at £9.17)</i>	<i>NIC Threshold - Over £288.3 (NLW at £9.61)</i>	<i>NIC Threshold - Over £301.8 (NLW at £10.06)</i>	<i>NIC Threshold - Over £315 (NLW at £10.50)</i>
<b>Total sector wage bill by</b>	<b>£3,449,376,653</b>	<b>£3,661,782,819</b>	<b>£3,848,651,323</b>	<b>£4,035,519,827</b>	<b>£4,222,388,331</b>	<b>£4,409,256,835</b>
<b>Benefit of Employment</b>	£98,089,660	£130,786,213	£130,786,213	£130,786,213	£130,786,213	£130,786,213
<b>Benefit of increasing the Employer NICs threshold</b>	-	£155,112,716	£163,028,446	£170,944,175	£178,859,904	£186,775,633
<b>Net benefit Employment Allowance and Employer NICs</b>	<b>£98,089,660</b>	<b>£285,898,930</b>	<b>£293,814,659</b>	<b>£301,730,388</b>	<b>£309,646,117</b>	<b>£317,561,847</b>
<b>Total wage bill - net benefits</b>	<b>£3,351,286,993</b>	<b>£3,375,883,889</b>	<b>£3,554,836,664</b>	<b>£3,733,789,439</b>	<b>£3,912,742,213</b>	<b>£4,091,694,988</b>

### **Excise Duties & Illicit Trade**

Convenience retailers collect a significant amount of excise duties on behalf of the Government, mainly from the tobacco-related (21% of sales) and alcohol (15%) categories<sup>11</sup>. However, continual increases in duty rates have driven a significant minority of consumers towards black market products. HMRC statistics put the tax gap at £2.8bn for excise duties. The percentage tax gap, the tax gap pound value as a proportion of theoretical liability, is 14% (£1.5bn) for tobacco and 7.5% (£0.6bn) for alcohol<sup>12</sup>.

We believe both greater enforcement against the illicit trade and further freezes in excise duties are required to reduce these significant tax gaps. Specifically, HMRC should review its approach to enforcement and sanctions to tackle the illicit and non-duty paid trade. We would support HMRC removing retailers' ability to trade by removing alcohol licences where they are found to be wilfully selling illicit or non-duty paid products. This is an effective but underused sanction which we know would deter businesses in our sector from engaging in the illicit alcohol and tobacco trade.

We also encourage HMRC to extend the offences of Restricted Premises Orders (RPO) and Restricted Sales Orders (RSO) to include illicit tobacco offences. This would be a more effective way for dealing with low volume and low value illicit tobacco offences instead of fines or written or verbal warnings by prohibiting a venue from selling tobacco products for a period of up to 12 months.

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<sup>11</sup> ACS Local Shop Report 2019

<sup>12</sup> [Measuring tax gaps 2020 edition](#) HMRC

## Annex A

### ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.

**ACS** | the voice of local shops

### WHO WE REPRESENT

#### INDEPENDENT RETAILERS



ACS represents over 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

#### SYMBOL GROUPS AND FRANCHISES



ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

#### MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents over 12,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

### THE CONVENIENCE SECTOR



In 2018, the total value of sales in the convenience sector was £39.1bn.

The average spend in a typical convenience store transaction is £6.50.



There are 46,262 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 365,000 people.

24% of independent/symbol stores employ family members only.



24% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

70% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

81% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2017 and May 2018, the convenience sector invested over £814m in stores.

The most popular form of investment in stores is refrigeration.

### OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

#### ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

#### ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

#### ACS LOCAL SHOP REPORT

Annual survey of over 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 7,669 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

#### BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit [www.acs.org.uk](http://www.acs.org.uk)