

## **TRANSITIONAL RELIEF**

### **The UK (England and Wales, Scotland)**

#### Background

The purpose of transitional arrangements is to decrease the impact of sudden and substantial rises in business rates bills as a result of revaluation. Section 65 of the Local Government Act 2003 made transitional arrangements a permanent feature of any revaluation of non-domestic property.<sup>1</sup>

The 2005 Transition Scheme was designed to operate over a four year period and has now come to an end. Its purpose was to benefit all property owners facing an increase in their rate bills in 2005/06 of over 12.5% for large properties and 5% for small properties. The value of the benefit depended on the extent of the increase in the rate liability.

The key benefit to the 2005 scheme was that ratepayers were able to plan for the effect of the 2005 revaluation knowing that they would not face dramatic changes in their bills in the first year and subsequent three years.<sup>2</sup>

The transitional arrangements do not cover increases from inflation or changes in the rateable value because of changes to the property, e.g. an extension. Any transitional relief an individual is entitled to, is calculated by the local authority.

### **England and Wales**

#### 2010 Revaluation

This will come into effect on 1 April 2010, and again transitional arrangements will be responsible for the gradual phasing in of significant increases or decreases in business rates bills over the subsequent 5 years.

#### Wind Farms

After discussion with the Valuation Office Agency UK, it appears that wind farms in England are rated conventionally as businesses, meaning they are entitled to transitional relief as they are classed as 'non-domestic' (or business). The Business Rate is related to the rated value of the turbine, which works out at £2.08 per installed kilowatt<sup>3</sup>.

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<sup>1</sup> [Office of the Deputy Prime Minister, NNDR Transitional Arrangements: Consultation](#)

<sup>2</sup> [Business Link UK, Transitional Arrangements](#)

<sup>3</sup> [BWEA](#)

### Wales

According to the British Wind Energy Association (BWEA), Wales charges rates for wind farms as a uniform Business Rate (non-domestic rate). While this is similar to England where the rate is related to the rated power of the turbine, the value per kilowatt produced is different at £0.82 per installed kilowatt<sup>4</sup>. Discussions with the UK Valuation Office verified that while Wales charges rates, there are no transitional Relief Schemes or Arrangements offered<sup>5</sup>

### **Scotland**

After liaising with the Scottish Government, it was confirmed that onshore wind farms are liable for non- domestic rates, but offshore wind farms are not. According to the BWEA, in circumstances where the electricity produced is consumed entirely on agricultural/farm land, it is possible that no rates are payable.<sup>6</sup> According to the Scottish Government guidance on non-domestic rates the following types of property are exempt from paying non-domestic rates<sup>7</sup>:

- Agricultural land and buildings
- Fish farms, fishing, and sporting rights (your local fishery board may request that the Assessor values salmon fishing but only for its own purpose)
- Public parks
- Sites of Automatic Telling Machines (ATMs) in rural settlements
- Oil and Gas Pipelines
- Diplomatic Missions
- Overseas Armed Forces in the UK

From the above list it is clear to see that wind farms are not included, therefore they are liable to pay non-domestic rates.

Rates for wind farms are paid as a Business Rate (non-domestic), which is related to the rated power of the turbine. For instance in Scotland, the value works out at £2.29 per installed KW, which applies to all new projects. Existing projects are liable for reduced payments through 'Transitional Arrangements/ Relief'. Like England, these are applied to limit the percentage change in rates<sup>8</sup>.

Changes may occur as the rate value for non-domestic property is set by the Scottish Assessors, which under existing legislation are required to re-value the cost every 5 years. This is to ensure that rate bills keep up to date with market rental values, and remain equitable between ratepayers<sup>9</sup>. The last Revaluation took place in April 2005, with the next to be carried out 2010.

The aim of transitional arrangements is to protect ratepayers whose value increases suddenly above the Scottish average, immediately after the revaluation. It gives ratepayers time to plan paying the bill over a longer period, without the scheme, those facing substantial increases, may have to rationalise their business operations. In comparison to the scheme in England, different percentage limits apply in Scotland, which determines whether a candidate is eligible for the scheme or not.<sup>10</sup>

<sup>4</sup> [BWEA](#)

<sup>5</sup> [Business Link UK, Transitional Arrangements](#)

<sup>6</sup> [BWEA](#)

<sup>7</sup> [Scottish Government guidance on no-domestic rates](#)

<sup>8</sup> [BWEA](#)

<sup>9</sup> [Non-Domestic Rates: 2005 Revaluation Transitional Arrangements – A Consultation Paper](#).

<sup>10</sup> [Business Link UK, Transitional Arrangements](#)

**Scottish limits<sup>11</sup>**

The year immediately following the 2000 Revaluation, Transitional relief applied to:

- small businesses (business with a ratable value of £10,000 or less) with an increase of rates bills limited to 5%
- all other subjects with an increase of rates bills limited to 7.5%.
- subjects with a limited decrease of 5% in rates, funds collected from this contributed to aiding those with a marked increase.

Adjustments made under the transitional relief scheme were phased out in equal steps over the years, so that by 2004-05 all non-domestic ratepayers were paying their true rates bill.

**Republic of Ireland**

Through liaison with the Department of Communications, Energy and Natural Resources (DCENR), it was established that the Republic of Ireland does not have Transitional Relief.

Instead, a tax relief scheme was introduced by Section 62 of the Finance Act 1998<sup>12</sup> (Section 486b of the Taxes Consolidation Act 1997). This provides tax relief for corporate investments in qualifying wind energy projects, and also hydro, solar and biomass energy projects, depending on approval from the Department of Public Enterprise.

Companies can invest up to €38 million (€12.69 p/a over 3 years) in a number of renewable energy projects for which it can recoup tax relief at whatever rate the company pays from its own profit (currently 36% for corporations)<sup>13</sup>.

**Germany**

Through discussion with the German Wind Energy Association (Bundesverband Wind Energie- BWE) it appears that there are no transitional relief schemes offered to the owners of wind energy power plants.

They have to pay regular “commercial tax” which depends on their revenues. The BWE supports the rule where 70% of the revenue stays with the local government, and the rest is transferred to the regional and federal government, as it is seen as a mechanism which increases the support for wind energy at the local level.

Since the amendment of the Renewable Energy Sources Act<sup>14</sup> which came into force on 1<sup>st</sup> January 2009, the rates for new wind energy power plants were increased to 9.2c per each kWh produced onshore and 15c per kWh for offshore wind power plants which start producing electricity by the end of 2015.

<sup>11</sup> [Non-Domestic Rates: 2005 Revaluation Transitional Arrangements – A Consultation Paper.](#)

<sup>12</sup> [Finance Act 1998](#)

<sup>13</sup> [Sustainable Energy Ireland- Renewable Energy in Business and Industry](#)

<sup>14</sup> [Renewable Energy Sources Act 2009](#)

## Denmark

According to a contact in the Danish Energy Agency (Energiforsyning)<sup>15</sup>, Denmark does not charge special rates for wind farms. Onshore owners of land pay a property tax. If the owner of a wind farm owns the site the farm is on, then a property tax must be paid at the same rate charged for other land uses.

### Municipal property taxes (land tax)

The land tax is calculated as a percentage of the value of the land to the municipality. The municipalities themselves set the land tax, which property owners in the municipality must pay. However, it must be between 1.6% and 2.4% of the value of the land.

Every other year properties (including land) are assessed. Assessment of the land is based on the value of the land in an unimproved condition, the location and what it can be used for. The evaluations made every other year, constitute the tax bases for 2 consecutive years. According to the Ministry of Taxation (SKAT), the average county and municipal land tax is approximately 2.4%.<sup>16</sup>

There are also expenses for services such as refuse collection. These are often levied with property tax, but expenses for refuse collection are exclusively based on user charges and are not determined by the tax system. Both amounts are collected at the same time for practical reasons.

### Environmental taxes

Environmental taxes are paid on consumption of electricity, water, and heating. The use of these taxes increased during the 1990s, and income generated from their collection is used to ease income taxes<sup>17</sup>.

### Transitional Relief

The Danish Energy Agency confirmed that there are no support schemes or transitional relief offered to help owners pay rates. Offshore wind farms do not pay property tax. Revenue from the operation of wind turbines is taxable in line with other revenues.

**15 December 2009**

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<sup>15</sup> [Danish Energy Agency](#)

<sup>16</sup> [Ministry of Taxation \(SKAT\)](#)

<sup>17</sup> [Ministry of Taxation \(SKAT\)](#)