

# Treasury Committee VAT inquiry: Heritage Alliance Response



30 May 2018

1. The Heritage Alliance is England's largest coalition of independent heritage interests. We unite over 120 organisations which together have over 7 million members, volunteers, trustees and staff. The vast majority of England's historic environment is owned, managed and cared for by Heritage Alliance members.
2. The Heritage Alliance welcomes this opportunity to respond to the [Treasury Committee's VAT inquiry](#). The Alliance has, among other things, previously [responded to](#) the Office of Tax Simplification's call for evidence on this issue and has [responded to](#) the EU's consultation on VAT simplification.
3. **The current VAT regime is one of the biggest threats to the future of our built heritage and the industries that it supports such as tourism. Repair and maintenance is vital, yet the current system inadvertently incentivises the demolition of historic buildings which require significant maintenance work due to the 20% VAT tax burden compared to new construction which largely has a 0% VAT rating. The Heritage Alliance is a long-term proponent of VAT changes to benefit the UK's heritage - we would welcome the opportunity to provide any further evidence the committee requires.**
4. The Treasury has said that it cannot currently zero-rate VAT on repair and maintenance due to EU law. Following the ECOFIN decision in 2009 to allow EU member states to reduce VAT to 5% on repairs, maintenance and improvement to private dwellings, the Cut the VAT coalition commissioned an [Experian research report \[pdf, 1.5mb\]](#) which showed that reducing VAT rate to 5% on all housing renovation and repair work (as is already the case in the Isle of Man) between 2015 and 2020 would have had the following impact:
  - A total stimulus effect of more than £15.1bn in the UK economy as a whole;
  - 42,050 extra full-time equivalent construction jobs by the end of 2020;
  - An additional 53,430 jobs in the wider economy by the end of 2020;
  - A total of 95,480 extra jobs in the UK by the end of 2020;
  - Up to 3,586 new construction jobs in Scotland; 1,475 in Wales; and 416 in Northern Ireland;
  - Total extra expenditure of around £1.08bn on energy efficiency measures;
  - A potential saving of up to 237,128 tonnes of CO2 as 91,660 homes are retrofitted with loft and wall insulation, double glazing and energy efficient boilers.
5. NB. This report did not take account of the potential savings for the Heritage Lottery Fund to enable it to support more projects.

6. A letter to the Heritage Alliance from HM Treasury estimated that a reduction in VAT on repairs maintenance and improvement to residential property would cost at least £2 billion a year. Over a similar five year period as considered in the Experian report that would be a total of £10 Billion which is eclipsed by the stimulus of £15.1 billion and other benefits that would result.
7. Alternatively, the Government should create a lower rate for repair and maintenance of heritage buildings only once the UK has left the EU or the EU completes its planned liberalisation of VAT law.
8. We have addressed those inquiry questions most relevant to the heritage sector below:

### **VAT and the tax gap**

9. **In what ways is the tax base in the UK vulnerable to exploitation by those determined to circumvent VAT rules, push boundaries or develop aggressive VAT planning arrangements? How might either the law or HMRC's processes and procedures be improved to reduce that vulnerability?**
10. The increased tax burden on carrying out maintenance and repairs provides an incentive for homeowners to have repairs and maintenance carried out 'cash in hand' with no VAT paid. This means consumers are less likely to have a record of work carried out if problems arise, the Treasury gets fewer receipts but without the stimulus to the economy that an VAT equalisation measure would cause. Furthermore, scrupulous homeowners, who will not use cash in hand arrangements, may find work too expensive to carry out leaving historic buildings to fall into disrepair. Reducing VAT on repair and maintenance to 5%, as is the case in the Isle of Man, or 0%, as could be allowed post Brexit or following the forthcoming liberalisation of EU VAT rules, would remove this tax evasion incentive, and ensure that other taxes are paid on the profits made by firms carrying out such work.

### **VAT and Brexit**

11. **What opportunities and challenges for the UK VAT regime are presented by the UK's exit from the European Union?**
12. The Chancellor stated in a letter to the Alliance that the UK is unable to introduce new zero-rates for the repair and maintenance of historic buildings under EU law. The Chancellor noted that there was no category which would allow the UK to apply a reduce rate of VAT to the repair and maintenance to historic buildings only. Thus, a reduction to 0 or 5% are key opportunities for the Heritage Sector in relation to VAT post Brexit.

13. However, we would stress that the EU is currently progressing with its own reform of the EU VAT system and is proposing to remove the minimum VAT rate of 15% and abolish the list of reduced and zero rates as set out in more detail by the [Charity Tax Group here](#). The current list of goods and services to which reduced rates can be applied, would be abolished and replaced by a negative list (a to which reduced rates cannot be applied). These changes would make it possible to apply either a zero or 5% VAT to the repair or maintenance of historic buildings in advance of leaving the EU (depending when the changes come into force) or during any transition period under which we are required to comply with EU law.
14. Brexit may also present new challenges to the repair of maintenance of historic buildings as materials which are currently sourced from the EU and beyond may be subject to new tariffs. This will make repair even more expensive. This could be offset by a VAT reduction/ equalisation.

### **VAT and business**

**15. What aspects of VAT (either process or design) cause the biggest problems for businesses? How might they be improved?**

16. For those organisations running heritage attractions the 20% on repair and maintenance is a huge burden. For example, Historic Houses (HH) [Heritage Alliance member], which represents over 1600 independently owned historic houses, estimates<sup>1</sup> that its houses are spending £85 million per annum on tackling regular repairs and maintenance. However, despite this large annual investment there is a backlog of outstanding repairs at Historic Houses places totalling £1.38 billion, £500 million of which are urgent repairs. It is estimated that addressing all these outstanding repairs would create 9,000-person years of employment.
17. Tourists are drawn to the UK's historic houses, towns and cities. Such tourism is supported by the maintenance of properties by private owners and businesses to ensure that they remain attractive and appealing destinations. This is especially important in places such as seaside towns which the Government is working hard to revive<sup>2</sup>. Since 2010 tourism has been the fastest growing sector in the UK in employment terms. Britain is forecast to have a tourism industry worth over £257 billion by 2025<sup>3</sup>. Ensuring Britain is well maintained to ensure it remains an attractive and growing tourist destination is therefore increasingly

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<sup>1</sup><https://www.historichouses.org/resources/all-resources/key-stats-infographic.html>

<sup>2</sup><https://www.gov.uk/government/policies/economic-development-in-coastal-and-seaside-areas>

<sup>3</sup><https://www.visitbritain.org/visitor-economy-facts>

important. 30% of overseas visitors cite heritage as the biggest single motivation for their visit to the UK – the largest single factor for non-business visitors<sup>4</sup>.

18. The current system is confusing for those business working in construction there are a number of circumstances where a reduced rate of 5% is applied such as:

- installing [energy saving products and certain work for people over 60](#)
- [converting a building into a house or flats](#) or from one residential use to another
- renovating an [empty house or flat](#)
- home improvements to a [domestic property on the Isle of Man](#)

19. A simpler system would be much easier for business to apply and would reduce the fear of wrongly applying the 5% rates. Anecdotal evidence suggests that these 5% rates are not very widely known/ used in relation to heritage buildings.

20. The Alliance is currently working with others in the heritage sector to create a proposal for the Treasury a grant to test the effect of a grant for those undertaking the repair and maintenance of historic buildings to claim back VAT. This includes looking at how the Listed Places of Worship Grant Scheme works in terms of the straightforward administration and also at how effective it has been in enabling more repair and refurbishment projects to take place on listed places of worship.

### **VAT and good tax policy**

21. How does VAT measure up against the principles that tax policy should:

- o Be fair
- o Support growth and encourage competition
- o Provide certainty without regular recourse to the courts - which in turn requires legal clarity, simplicity and targeting (so that taxpayers are clear whether or not they are liable for particular types of charges to tax)
- o Provide stability, with minimal change unless there is a justifiable economic or social basis
- o Be practicable, meaning that a person's tax liability should be easy to calculate and straightforward and cheap to collect; and
- o Be coherent, with new provisions complementing the existing system rather than conflicting with it.

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<sup>4</sup> <https://content.historicengland.org.uk/content/heritage-counts/pub/2016/heritage-and-the-economy-2016.pdf>

## 22. 'Be fair'

23. The current disparity between new build is manifestly unfair. It confers a tax advantage on developers who stand to make a large profit for the redevelopment while taxing owners trying to keep their properties in good repair who do not stand to make any profit out of the process. The system is perhaps especially unfair for historic buildings since they will have higher repair and maintenance costs.
24. Historic England estimates that there are around 500,000 listed buildings in England. The custodians of these nationally important sites face extra costs and responsibilities; as owners of listed buildings they are required to look after them, and these buildings are more challenging and costlier to look after. Yet very little support is given in terms of grant or other funding for private owners of listed buildings. The previous zero-rating for approved alterations to a protected (e.g. listed) building (which did not including repair and maintenance) was removed for 'works' after 1 October 2012. This has added to the burden for owners of listed buildings it does not seem fair that the state should add a burden without granting the same benefit it does to housing developers making profits redeveloping a site.

## 25. 'Provide certainty without regular recourse to the courts - which in turn requires legal clarity, simplicity and targeting'

26. A simpler rating system would provide greater certainty and clarity.

## 27. 'Provide stability, with minimal change unless there is a justifiable economic or social basis'

28. The current system has not provided sufficient stability. The previous zero-rating for approved alterations to a protected (e.g. listed) building (which did not include repair and maintenance) was removed for 'works' after 1 October 2012 with very little consultation with the sector on how it would be impacted or provide any opportunity.
29. Similarly, the Government has confirmed that the Listed Places of Worship Grant Scheme and Memorial Grant Scheme, which use a grant to pay for VAT will continue at their current levels of budget until March 2020. The lack of stability makes it difficult for the sector to plan for its long-term future.

## 30. 'Be practicable, meaning that a person's tax liability should be easy to calculate and straightforward and cheap to collect'

31. Again, the complex nature of differing VAT rates for construction and maintenance work means that VAT liability is not straightforward and easy to calculate.

32. **'Be coherent, with new provisions complementing the existing system rather than conflicting with it'.**
33. The current system is incoherent as it actively encourages the destruction of existing buildings. Not only does that lead to the loss of heritage buildings but it is not environmentally friendly due to the waste of the embodied energy in the existing buildings. The energy is also required for demolition, waste removal, production and transport of materials from abroad etc.
- 34. Is the process of making VAT policy sufficiently open to scrutiny and debate? Are there ways in which the current process can be improved?**
35. No, the changes to the VAT regime which removed the zero rating for alterations for listed buildings were not widely consulted on and open to public debate as to whether the exemption could have been reformed or replaced with a targeted grant rather than abolished. Similarly, there is not enough clarity over how the future of the Listed Places of Worship Grant Scheme will be decided.
36. The Treasury should actively seek out involvement from the heritage sector at an early stage to allow meaningful feedback on any changes and to allow any harmful proposals to be mitigated.
37. It is vitally important that places of worship are kept informed and given sufficient warning of any changes being proposed to the LPWGS or the MGS. And, if there are to be any changes or in a worst-case scenario that the Schemes are to come to an end in March 2020, that the necessary transitional arrangements are put in place.

For further information, please contact The Heritage Alliance.

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