

Charity Tax Commission review of charitable tax relief: Heritage Alliance Response



The Heritage Alliance is pleased to submit evidence to the [Charity Tax Commission's review of charitable tax relief](#).

The Heritage Alliance is England's biggest coalition of heritage interests, bringing together well over 100 mainly national organisations supported by over 7 million members, friends, volunteers, trustees and staff. From historic buildings and museums to canals, historic vehicles and steam railways, the Heritage Alliance's diverse membership owns, manages and cares for the vast majority of England's historic environment and forms a key part of the cultural sector.

We have provided information on the tax reliefs of most relevance to our members below.

Value Added TAX (VAT)

We agree that the current VAT regime makes it hard for some charities to recover VAT on purchases made to support their activities. Small charities, in particular, find it difficult to register for VAT exemption, and therefore must spend much of money they have fundraised on taxation.

The costs of taxation are felt particularly by historic houses, which are in frequent need of expensive repair and restoration. For example, Historic Houses (HH) [Heritage Alliance member], which represents over 1600 independently owned historic houses, estimates 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. Charities must pay the full 20% VAT on both the materials and labour needed for repair and restoration, whereas the 'construction of new qualifying dwellings and communal residential buildings, and certain new buildings used by charities' are rated at 0% in Section 2.1 of the government's [VAT Notice 708: buildings and construction](#). The difference in VAT, between restoration and new build, seriously endangers the future of our built heritage, and the industries that it supports such as tourism, because it inadvertently incentivises the demolition of historic buildings which require significant maintenance work.

This problem could be tackled by more widely facilitating better access to VAT exemptions for charities, which would make expensive restoration materials more affordable. Alternatively, the government could reduce VAT to 0% for charities on services for repairs and maintenance. 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 a total stimulus effect of more than £15.1bn in the UK economy as a whole. An exemption for charities would provide a smaller, but similar, stimulus. This proposal is discussed in further detail [our response to the Treasury Committee VAT enquiry](#).

Gift Aid

Gift Aid is of great importance to heritage charities and must be retained.

We would like to see individuals being treated in a similar way to companies. In other words, we would like gifts in kind to be eligible for gift aid, particularly in the case of advice or services, given by individuals or companies who would normally expect to be paid.

Additionally, we believe it should be possible for expenses paid by an individual volunteering or employed by a company, which they choose not to reclaim, to be treated as a donation, and for gift aid to be applied accordingly. Currently, employees and volunteers must pay the expenses, claim them back, then donate an equivalent sum of money to the charity, to secure gift aid.

Gift Aid Small Donations Scheme

Again, the Gift Aid Small Donations Scheme is very helpful to heritage bodies and ought to be continued.

Business Rates Relief

Our members report that the Valuation Office, which assesses business rates, often appears to consider that organisations with significant social, cultural or educational value must therefore have monetary value and places high value on buildings such as museums as a result. Therefore, when looking at receipts, the Valuation Office appears to take a percentage of gross income (estimated from limited information) or it adopts the contractors approach.

However, we understand that the Valuation Office has not been consistent in its approach to dealing with heritage charities and their trading arms and whether shops and cafes have been rated independently of the property they are attached to. It is believed that, largely, where a shop is located in a part of the property that is not considered to serve any other function, it is subject to a separate valuation. Yet in most cases, the shops are also the admissions and membership recruitment points for Heritage Alliance member sites. Both these income streams are classified as charitable income and should therefore be subject to charitable relief.

At Kenwood House, for example which is free to visit, due to the terms on which the house was endowed, English Heritage (Alliance member) pays the business rates for the café operated by a concession caterer. The rates were £14,000 but after revaluation the payable rates rose to £146k. English Heritage has applied to Camden Council for charitable relief but has been told that this will be unlikely. English Heritage stresses that the profits from commercial activities undertaken at heritage & cultural sites are critical contributors to financial sustainability and, in the case of English Heritage, the profits from commercial activities are fundamental to the New Model plan to become independent of Government subsidy.

More information on this issue can be found in [our response to the Discretionary business rates relief scheme](#).

We also would like to register our support for the continuation of the listed building empty business rate exemption. The scheme does not, as many argue, incentivise people to keep buildings empty, for a small tax exemption does not compensate for the disadvantages of keeping a property empty. The scheme is crucial for the continued protection of listed buildings. More information on the issue can be found in the government's '[Modernising Empty Property Relief](#)' summary, which explains why the relief was kept, after a challenge in 2007.

Insurance Tax Premium

Over recent years the Insurance Tax Premium has more than doubled, the standard rate increasing from 5%, in 2011, to 12%, in 2017. This has had particularly serious consequences for heritage

charities, who often have extremely high insurance premiums, due to the nature of the historic homes they are protecting. There is no recognition in the existing Insurance Tax Premium scheme that heritage charities are faced with very different, and often far more costly, insurance issues than most. The application of Insurance Tax Premiums ought to be reviewed to alleviate the extraordinary burdens it places on heritage charities.

Climate Change Levy

Business activities, in the March 2018 [Excise Notice CCL1/3: Climate Change Levy - reliefs and special treatments for taxable commodities](#), were defined as including activities where 'charges are only set to recover costs incurred' (Section 2.6). This has serious implications for many heritage charities, who are forced to charge visitors to maintain their historic buildings, which often have very high running costs. This definition of business activities should therefore be brought under review.

The rationale behind the CCL scheme, moreover, to incentivise energy efficiency, is not applicable to the heritage sector. Due to the nature of many listed buildings, particularly those rated Grade 1, it is often impossible for heritage charities to implement the changes that would improve their building's energy efficiency and reduce carbon emissions. Heritage charities are therefore penalised by the CCL but cannot do anything to alleviate this burden.

Social Investments Tax Relief

We fully support this scheme. Social Investment Tax Relief has increasingly incentivised communities to come together to purchase and protect local historic sites.

Stamp Duty Land Tax

We also wish to register our support for the Stamp Duty Land Tax relief available for charities, as this has facilitated the purchase of heritage sites by charities, to preserve for the future.

Other Comments

Other Areas of Taxation for comment

We would like to draw attention to the apprenticeship levy. This was designed for large businesses, but is not well suited to small charities. The levy ought to be reviewed, to ensure it works more effectively for smaller charities.

For further information, please contact The Heritage Alliance.

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