The Heritage Alliance Budget Representation 2020

SUMMARY

The Heritage Alliance is the largest coalition of heritage interests in England. We unite almost 150 independent heritage bodies from English Heritage, the National Trust, the Canal & River Trust and Historic Houses to professional institutes, national amenity societies and research bodies. Our members represent over seven million people, including volunteers, trustees and staff.

This Budget Representation from the Heritage Alliance proposes the following three funding priorities:

1. A VAT system which incentivises reuse through parity of treatment for the repair and maintenance of existing buildings as compared with new-build;
2. A commitment to the continuation of the Heritage Maintenance Funds scheme and reduction of the income tax rate on these funds to 20%;
3. A commitment to the continuation of the Listed Places of Worship Grant Scheme.

These proposals, in no particular order, are widely supported and reflect priorities identified by the breadth of our membership. They were outlined in our Heritage Manifesto 2019 and our Fiscal and Funding Priorities 2019 documents:

> ***"Reform the tax regime to promote the repair and maintenance of our nation's irreplaceable heritage assets, whilst tackling climate change:*** *We need a more positive, and simpler, tax regime for repair, maintenance and conservation. Work to historic buildings is subject to 20% VAT, yet no VAT at all is charged on demolition or new build. This creates a perverse incentive to demolish old buildings rather than repairing, maintaining or altering them. Incentivising repair and measures for improving energy efficiency of historic buildings in a sympathetic way is much better for the environment. VAT should be permanently reduced to 5%, and ultimately 0%, on the repair, maintenance and improvement of dwellings, and the income tax on heritage maintenance funds should be reduced from 45% to 20%. This would release investment, boost jobs and reduce the carbon effects of demolition and re-build. This approach will also help the Government meet the target of net zero emissions by 2050. Repair and maintenance work of historic buildings generated £6.6bn in construction sector output in England in 2016. At present the tax incentives for owners are inefficient – a smarter fiscal system would promote better outcomes, for heritage and for society. The new Government should commit to the future of the Listed Places of Worship grant scheme so that VAT incurred on eligible costs can continue to be recovered for these important*

buildings and look to extend this scheme to other historic assets. A commitment to simplifying and reducing the burden of business rates on the heritage sector would also help the many museums and other heritage organisations who have suffered from a sharp increase." (Heritage Manifesto 2019)

Great National Asset

Our heritage is one of our greatest national assets, from our rich architectural tradition to our ancient and distinctive landscapes, from exquisite objects, archaeological sites and historic vehicles to stunning religious buildings, museums and preserved ships. It creates vibrant places and defines our towns, cities, countryside, and coasts, encouraging inbound tourism, uniting communities and enhancing our nation's soft power internationally. It tells our stories as a nation, supporting social cohesion, rootedness and identity. Heritage drives beneficial change, contributing to our well-being, enhancing biodiversity and supporting long-term environmental sustainability. Our historic buildings, landscapes, traditions, historic transport, and museums are part of our unique offer on the national and international stage and should play a central role in the promotion of the UK.

Productive

England's heritage industry directly contributes £14bn in gross value added (GVA).[1] This is larger than the security industry, defence industry and the aerospace industry in the UK. Including indirect contributions, England's heritage industry is worth £31bn, equivalent to 1.9% of national GVA. The heritage sector employs directly 198,000 people.[1]

Popular

Heritage is popular. Nearly 15 times more people visited heritage attractions in 2016-17 than attended Premier League football matches. It is the backdrop to the success of many of our creative industries. There's no Downton without Highclere. No Poldark without the mines. No Peaky Blinders without the Black Country Living Museum.

Public good

Heritage is a public good, playing a key role in economic and social regeneration and enhancing wellbeing and mental health. Its survival depends on the private, independent and public sectors working together. The battle to protect our heritage is far from won, as high-profile campaigns to 'save' historic landmarks and thousands of sites and buildings at risk show. Heritage is the background to people's lives.

Priority 1 - A VAT system which incentivises re-use through the simplification of the VAT system to ensure parity of treatment for the repair and maintenance of existing buildings as compared with new build;

The Case for Reducing the VAT to Ensure Parity with New Build

We must maintain, repair, and reuse our historic buildings. The recent Building Better, Building Beautiful Commission's report *Living with Beauty* strongly supports the case we are making:

'Our built environment and our natural environment belong together. Both should be protected and enhanced for the long-term benefit of the communities that depend on them. Settlements should be renewed, regenerated and cared for, and we should end the scandal of left-behind places, where derelict buildings and vandalised public spaces drive people away…' and *'we need to address ways in which the tax code unintentionally discourages landowners and developers from putting together stewardship projects.'*

Given the Government's stretching targets around reaching Net Zero by 2050, a renewed focus on place, quality of life, and a growing recognition of the role of heritage in achieving these important public outcomes, now is the time to ensure that Government is doing everything it can to create the right conditions for encouraging repair and recycling of buildings. This will ensure investment in towns and high streets goes further and that the Government's priorities around regeneration and levelling-up economically and socially are achieved through ensuring everyone is incentivised and supported to maintain and re-use our finite historic stock, from northern terraces in areas of deprivation, to historic properties open to the public. New homes do not always need to be new-build and the reforms we propose will encourage developers to take a responsible attitude to reuse rather than demolition being incentivised. The climate crisis requires a new set of solutions in relation to the historic environment. Buildings are today the third largest carbon emitting sector in the UK and there is an acute need to substantially step up actions to cut emissions in buildings and as part of the construction process.[1] Although as a heritage organisation, heritage assets are foremost in our minds, the environmental argument applies across the UK's existing building stock.

The Building Better, Building Beautiful Commission's *Living with Beauty* states '*The character of a place, like that of a human being, develops across time, and the older, buildings of a place endow its character with a depth and complexity that it is difficult to achieve in developments built from scratch.'* This report exemplifies the importance of place in the lives of our cities, towns and villages and rural landscape. It clearly makes the social case for the reuse and restoration of our heritage buildings.

We believe it is the collective responsibility of the sector, Government, the construction industry, and the wider population to promote the repair and maintenance of the existing building stock in the UK. We advocate for the implementation of a more positive, and simpler, tax regime for

[1] Committee on Climate Change, 2019

repair, maintenance and conservation of heritage assets. Work to historic buildings is currently subject to 20% VAT, yet no VAT at all is charged on new buildings. This creates an environmentally unfriendly incentive to demolish old buildings. The Building Better, Building Beautiful report re-states this case, noting: *"Among our specific proposals, we advocate radical reform of the VAT provisions so as to remove the incentive favouring new-build over re-use when it comes to discarded buildings. Such reforms will bring to an end the unnecessary and ecologically unacceptable destruction of adaptable and durable buildings, and their replacement by short-lived glossy boxes… Government should align VAT on housing renovation."* It also argues these tax regimes potentially more than double the tax liability to landowners who take a long-term interest in creating better places.

VAT on both repairs and maintenance has a suppressive effect on economic activity and has resulted in consequential loss of capacity especially among specialists, essential for the appropriate care of historic buildings and has a negative impact on reviving or promoting enterprise, craft skills and apprenticeship[2]. According to the Federation of Master Builders, a cut in the VAT on home improvement works would stimulate the industry, as tax would no longer be a barrier to homeowners upgrading the energy efficiency of their buildings.[3] Research commissioned by Experian in 2015 found the impact of reducing the rate of VAT on residential repairs and maintenance from 20% to 5% (over the 5-year period from 2015 to 2020) was estimated to generate an stimulus of £15bn over the 5-year period to 2020 at a cost of £6.6bn over the same period.

Creating an equalisation at 0% VAT will be particularly impactful on levelling up to a greener infrastructure and way of life. We are aware that whilst the UK remained in the EU this was cited by Government as a difficult change, but with our departure from the EU, an opportunity is created for simplification where VAT is set equally for all construction work whether new build or repair and maintenance. A VAT change to equalise the amount of tax charged on repair and maintenance and the tax paid on new builds would encourage UK home owners to carry out energy efficient repairs and improvements, avoiding future carbon emissions from buildings. There is currently a zero rate for the construction of a new building which will be 'used solely for a relevant charitable purpose' (for non-business use or as a village hall) yet repair and maintenance on such buildings, many of which will be heritage buildings, does not receive the same discount. This likely drives organisations and developers to replace rather than repair heritage buildings. A potential simplification could include zero rating all construction work on a building which will be 'used solely for a 'relevant charitable purpose'. This would then include both new and existing properties.

[2] IHBC. http://ihbconline.co.uk/toolbox/research_notes/vat.html

[3] Federation of Master Builders. https://www.fmb.org.uk/about-the-fmb/newsroom/construction-recovery-needs-a-vat-cut/

Our proposals for environmentally beneficial VAT reform include a number of options that could be considered by Treasury:

- **Parity on VAT to match new build is ultimately essential and is possible now we've left the EU. A 0% equalisation would have the greatest impact. The Treasury would want to consider and analyse how this parity can be best achieved;**

- **We have previously proposed a way in which the Government could pilot and test a grant scheme which would refund the VAT charged in certain circumstances. This could operate along the lines of the Listed Places of Worship Grant Scheme, which sets a clear precedent and could be trialed in areas of great need such as heritage action zones and heritage high streets. This pilot could test the positive impacts on productivity and take-up of repair with a view to further roll-out or VAT change.**

- **The VAT regime could be amended for a trial period to incentivise repair in this time of climate crisis, with a view to extension if it is successful, with proper evaluation.**

We would be delighted to work as a sector (alongside others in the construction and building industry who also support these recommendations) with the Treasury to take forward these proposals.

The Economic Case

Parity in VAT treatment for repair and maintenance with new build will ***stimulate the economy.***

The importance of reducing the rate of VAT on repairs and maintenance of homes has been advocated for some time. Most notably, the Cut the VAT campaign lobbied exclusively on this issue several years ago. Cut the VAT commissioned research[4] by Experian in 2015 to quantify the potential impact of reducing the rate of VAT on residential repairs and maintenance from 20% to 5% (over the 5-year period from 2015 to 2020). The measure itself was estimated to generate an economic stimulus of £15bn over the 5-year period to 2020 at a cost of £6.6bn over the same period. Some of the notable benefits of the policy include:

- 42,000 extra full-time equivalent construction jobs and 53,000 jobs in the wider economy by the end of the period (with the majority of those jobs starting in the first year of the policy change;
- Extra expenditure of around £1bn on energy efficient measures.

[4] Cut the VAT campaign research by Experian: https://www.fmb.org.uk/about-the-fmb/policy-and-public-affairs/domestic-refurbishment-and-energy-efficiency/

A more recent poll conducted by the HomeOwners Alliance, Resi architects and YouGov found that almost a quarter of people are put-off from undertaking home improvements due to cost[5], and almost a third confessed to paying cash to avoid VAT on home improvements. These findings support Experian's estimates that such a policy change would result in a surge of demand for home improvements and boost economic activity – and more importantly, boost standards by reducing the competitive advantage of the informal 'cash in hand' economy. Our key simplification measure is to reduce VAT to parity with new build on the labour element of all housing renovation and repair work, in properties of all ages.

The housing renovation and repairs market is huge. Evidence from the Isle of Man illustrates the benefits of reducing VAT on the labour element of all housing renovation and repair work. Following the EU Council Directive 1999/85/EC, which permitted on a temporary basis the reduction of VAT to 5% on the 'repair and maintenance of private dwellings', The Isle of Man experimented with a 5% VAT on domestic renovation and repair work, when VAT was usually 17.5%. The report on the experiment classed the VAT reduction as a 'huge success', with 96% of the traders from the evaluation survey (survey of 7% of traders who had reduced VAT under experiment) claiming that it had increased business, while 40% of respondents said customers were having work done they would not normally have done.[6]

The current VAT regime is also a major threat to the future of our heritage and the industries 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. A reduction in VAT across the board, not just for historic buildings, would have wide ranging benefits. For example, it would mean that people across the country could improve their homes rather than move house, or the owners of a 1960s former council house can afford to replace the leaking roof if it becomes 20% cheaper.

People are happier living in places with character, which our heritage buildings and spaces provide; in a study, history was the third most quoted factor that made people most proud of Britain – 35% of nearly 8,000 adults felt proud of Britain's history.[7] Historic buildings are also a key part of our tourism offer - and it will be economically important for us to we want to continue to boost our tourism from experience for both domestic and international visitors after we leave the EU. Visits to heritage attractions have increased by 49% since 1989.[8] In relation to our second budget priority, historic houses continue to be the most popular type of historic visitor

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[5] Home Owners Alliance. https://hoa.org.uk/campaigns/cut-vat-on-extensions/

[6] Heritage and the Economy; Heritage Counts 2016.https://historicengland.org.uk/research/heritage-counts/2016-heritage-and-place-branding/

[7] Heritage and Society; Heritage Counts. 2019. https://historicengland.org.uk/research/heritage-counts/heritage-and-society/

[8] Ibid

attraction accounting for 39% of all heritage visits, followed by visits to historic gardens.[9] These buildings are costly to maintain and fiscal incentives are crucial.[10]

Historic buildings also support social cohesion, with studies finding engaging in heritage activities enhances a sense of identity, especially in young people, and they create in increase in the feeling 'social connectedness', as well as a greater attachment to place. People want to secure the future of heritage, with 87% of adults agreeing that 'finding new uses for historic buildings rather than demolishing them' is important.'[11]

Businesses in old buildings are worth more, as it was demonstrated by the NLHF's report "New Ideas Need Old Buildings"[12]. A commercial business based in a listed building generates an average of £308,000 in GVA per year – 4.4% higher than the average for all commercial businesses across the UK. A survey of commercial occupiers of listed buildings found that for two thirds of respondents (69%) historic buildings convey a positive image to customers and clients. According to the report, the value and comparative advantage of historic buildings arises from the 'cache' of these often-unique places that are full of character. They can also offer businesses and brands something different and are an alternative to average corporate office buildings.

As demonstrated this week, the Creative Industries in the UK contributed over £111.7bn GVA in 2017-2018 and grew 5 times faster than the wider economy.[13] As we wrote in our report, Inspiring Creativity; Heritage & The Creative Industries, '*Historic landscapes and narratives inspire stories, art, performances, and even new technology. Many forms of cultural activity are hosted within our assets. Heritage organisations are partners for many creative practitioners in their search for funding, and creative organisations enable exciting new ways of storytelling for diverse audiences. Our support and inspiration help the creative industries deliver ground-breaking cultural experiences. Without the nation's historic landscapes, spaces, communities and stories, our creative industries would be unable to deliver such exciting, and enticing, engagement to both the domestic and the global tourist audiences.'* We must create a tax regime that supports the repair and maintenance of our historic assets, so they in turn can support our valuable creative economy.

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[9] Ibid

[10] See Priority 2

[11] Heritage Couts; Heritage and Society; 2019 https://historicengland.org.uk/research/heritage-counts/heritage-and-society/

[12] National Lottery Heritage Fund; New Ideas Need Old Buildings https://www.heritagefund.org.uk/publications/new-ideas-need-old-buildings

[13] DCMS Sectors Economic Estimates (Provisional): Gross Value Added https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863632/DCMS_Sectors_Economic_Estimates_GVA_2018.pdf

The Environmental Case

VAT on repair and renovation at parity with new build will ***help to reach our net zero emissions targets by 2050 – by ensuring that tax is not a blocker to anyone wanting to conserve buildings or improve the energy efficiency of their home.***

To meet our carbon emissions target of net-zero by 2050, we must incentive builders and homeowners to repair, renovate and reuse old buildings. The built environment accounts for approximately 40% of the UK's carbon emissions – and therefore has a crucial part to play in meeting our net zero emissions targets by 2050. Given the rate of renewal of the built environment, the Green Building Council estimates that 80%[14] of the buildings that will exist in 2050 have already been built, so decarbonising and improving the energy efficiency of our existing stock must be a high priority. At present the UK's VAT system encourages the demolition of buildings to make way for new residential flats and homes, rather than their refurbishment. This is problematic when the research shows carbon emissions from demolition account for as much as 7% of the total carbon of a new building when replacing a historic building. Demolition creates carbon, and to reduce carbon we must instead discourage demolition and encourage repair and maintenance.[15]

Domestic buildings are accountable for about half of these emissions. The UK has some of the most energy inefficient housing stock in Europe, which will need radically upgrading if we are to reach our target of net zero by 2050. There are 8 million lofts that need insulating, 5 million uninsulated cavity walls, and 20 million uninsulated floors[16]. Homeowners will need to be incentivised to do these home improvement works, and reducing the VAT burden associated with repairs and maintenance would be a clear way of stimulating demand.

Buildings are today the third largest greenhouse gas (GHG) emitting sector in the UK after surface transport (largest polluting sector in the UK today) and industry, which are the largest polluting sectors. The construction of new buildings emits 48 mega-tonnes of carbon dioxide in the UK each year – that's equal to the total emissions for the whole of Scotland. The construction industry accounts for 60% of all the materials that are used to produce goods in the economy each year. That means construction uses around 6 tonnes of new materials every year for every person living in the UK. Most of these materials are finite and cannot be renewed.[17]

Very few studies have considered the whole life carbon of historic buildings but a new study by Carrig Conservation International (2019) commissioned by Historic England to understand carbon in the historic environment calculated the embodied and operational carbon emissions of

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[14] The UK Green Building Council; https://www.ukgbc.org/climate-change/

[15] Heritage Counts; There's no place like Old Homes 2020

[16] Energy efficiency: building towards net zero https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1730/173004.htm

[17] Heritage Counts: There's no place like old homes; 2020

two completed refurbishment projects. Using actual data from two historic buildings a life cycle assessment model was developed and used to estimate carbon emissions before and after energy efficient refurbishment was undertaken. The data estimates the impact of the refurbishment on carbon emitted by the buildings over 60 years. The same research estimated carbon in a situation where the historic buildings are demolished and replaced with a typical new build.[18] Research from Heritage Counts, *There's no place like old home*s, shows that when a typical historic building is responsibly refurbished and retrofitted, it will emit less carbon by 2030 and by 2050 than a new building.[19]

The recoverability of VAT on construction costs is complex - with different costs recoverable depending on who the occupier is, whether the property is commercial or residential, and whether the property has been built for sale or for rent. It is also often easier to recover VAT on commercial property than it is on residential properties. This makes investment in homes comparatively less attractive. Reducing the rate of VAT on repair and maintenance and on homes would help level the playing field in terms of VAT recovery. For example, underused historic mills in West Yorkshire and Greater Manchester have the capacity to generate thousands of new jobs and new homes. Research in 2017 examined the opportunities provided by vacant and underused textile mills in West Yorkshire and the North West. The research demonstrated that there were approximately 1,350 underused or vacant mills in West Yorkshire, 542 in Greater Manchester and 540 in Lancashire.[20] As Heritage Counts 2019 says '*Applying standard office floor space densities to the total amount of net vacant floor space in West Yorkshire, Greater Manchester and Lancashire's textile mills illustrates the potential to generate 283,000 new net additional jobs (equivalent to £12.4bn of Gross Value Added per annum) or 52,000 new homes.'* With a higher VAT on repair of these buildings to make them suitable for homes and business, compared to 0% VAT on new build, there is a strong possibility developers would find it more economically practical to tear the buildings down and create a new build than restore the existing buildings.

[18] Understanding Carbon in the Historic Environment HIstoric England, Carrig Research (2019)
[19] Ibid
[20] Heritage and the Economy. Heritage Counts 2019. https://historicengland.org.uk/content/heritage-counts/pub/2019/heritage-and-the-economy-2019/

Priority 2 - A commitment to the continuation of the Heritage Maintenance Funds scheme and reduction of the income tax rate on these funds to 20%.

Reducing the income tax rate applied to Heritage Maintenance Funds down to 20% would be a modest and affordable change to the way the income from **Heritage Maintenance Funds** is taxed. This would help the Government to:

- **Promote tourism and wellbeing** across the country by opening up more historic houses for public access;
- **Generate increased economic activity** in non-metropolitan, rural parts of the UK, including many in the Midlands and North;
- **Act as a champion for repair and maintenance**, as it applies to some of the most significant heritage buildings in the country (which face a collective backlog of repairs worth £1.38 billion).

Reducing the income tax rate applied to Heritage Maintenance Funds down to 20 per cent would be:

· ***Affordable*** *(since it could only apply to a limited number of the most important historic buildings, open to public visiting);*

· *Demonstrably **good value** (a fully costed business case has been prepared to show how the reduction would result in a net benefit to the country);*

· ***Targeted*** *(since the income from maintenance funds can <u>only</u> be spent on the maintenance of a heritage building of national significance, open to the public);*

· ***Not open to abuse*** *(since the management of maintenance funds is already regulated by HMRC, working with agencies such as Historic England and Natural England);*

· ***Reforming*** *(since as presently constituted maintenance funds do not incentivise spending on maintenance given they are subject to the highest rate of income tax);*

· ***Carbon-friendly*** *(as this is about repairing and maintaining existing buildings, rather than building new ones);*

· ***Redistributive*** *(since it would promote the repair and maintenance of properties in all corners of the UK, mostly away from London, in favour of supporting rural areas);*

· ***Popular*** *(there are 26 million visits each year to historic house properties; the UK's heritage is world-beating);*

· *Good for the **UK's standing** in the world (as our historic house heritage is one of the principal reasons for why inbound tourists come to the UK);*

· ***Supported by all political parties*** *(maintenance funds were first put on the statute book by a Labour administration in 1976; they have support from a cross-party consensus about the importance of built heritage).*

What is the problem being addressed here?

Our historic built environment – our towns, villages, cities and landscapes – is one of the UK's greatest assets. It defines our sense of identity, influences our culture and social wellbeing, and promotes the country as a destination on the global stage.

Most built heritage is owned privately rather than by Government or even by charities. All heritage however requires constant care and maintenance. It follows that most maintenance is therefore a private matter and is carried out at a rate that private owners can bear.

But this rate may not be sufficient to ensure that the nation is maximizing the benefits from the stock of heritage assets that it holds. Hence there is a market failure in the provision of repair and maintenance to heritage assets.

Private owners of historic houses have an estimated collective conservation backlog of £1.38 billion, of which £500 million is deemed to be 'urgent'.[21] These houses are among the most significant heritage properties in the country, mostly listed at grade I or II*.

What are the solutions to this problem?

There are various possible approaches to the fundamental problem of tackling conservation backlogs for built heritage. Among these might be:

· Make more public grants available for use by private owners;

· Reduce the VAT charged to repairs and maintenance (see proposal 1);

· Increase the limit on lottery funds that can be applied for by private owners (currently capped at £100,000);

· Vary other parts of the tax system that impinge on the repair and maintenance of heritage.

Reducing the income tax applied to Heritage Maintenance Funds would fall into the last of these categories, and represents an efficient and effective solution to the fundamental problem of under-investment in repair and maintenance of private historic homes open to the public.

What are maintenance funds?

[21] [1] DCResearch (2015), The Economic and Social Contribution of Independently Owned Historic Houses and Gardens: Final Report, October 2015, pp. 39, 66.

Heritage Maintenance Funds (HMFs) are effectively the only measure on the statute book aimed explicitly at promoting heritage maintenance.

HMFs are a means by which owners can ringfence income-generating assets (from their own resources) for maintenance. There is an inheritance tax exemption on these assets at the point when a fund is established, which helps to encourage them to be set up.

The option for an individual owner to establish an HMF dedicated to the repair and maintenance a building of national significance open to the public has existed since 1976 (it was introduced as part of the Finance Act of that year).

Why are maintenance funds currently inefficient?

At present, Heritage Maintenance Funds simply do not live up to their name. For custodians, the principal attraction of setting up a maintenance fund remains the capital tax advantage (the exemption from IHT). There is no ongoing tax advantage thereafter, however. This is because the annual income from maintenance funds is taxed at 45 per cent, the highest rate of income tax.

In other words, funds that purport to be dedicated exclusively to promoting the maintenance of important heritage have nearly half the available income removed automatically each year by the Revenue.

As a consequence, the option to invest in a maintenance fund is hardly used. Information from HMRC indicates that there were 134 HMFs in existence in 2018. In other words, fewer than ten per cent of Historic Houses' member properties hold assets in the form of an HMF. Furthermore, approximately half of these are likely to be dormant (i.e. only contain nominal assets).

What is the proposal for the Budget in 2020?

We propose that the income tax rate applied to the income from Heritage Maintenance Funds should be reduced from the top rate of 45 per cent to the basic rate of 20 per cent. This modest reduction would ensure that tax is still paid on income generated by these funds, but at a reduced rate, ensuring that more is spent on repair and maintenance.

What is the business case for this change?

Historic Houses, which represents over 1,500 independently owned historic houses and gardens across the UK, commissioned an independent team of economists to model what the effect would be of reducing the rate of income tax.

In particular, Historic Houses asked Saffery Champness and Nordicity to prepare an analysis of the net costs to the UK economy of reducing the marginal trusts tax rate of 45p now applicable to HMFs to either 20p or 0p, and the net economic benefits that those changes would deliver.

An online survey of owners of historic houses found that 42 per cent of historic houses (or 46 per cent of those currently without an HMF) were likely to establish one if the tax rate applicable to HMF income was lowered from 45p to 20p. If the rate of Income Tax was lowered from 45p to 0p, 53 per cent of historic houses (or 58 per cent of those historic houses currently without a HMF) would likely establish a HMF. These data were used to model the impact of the different income tax rate scenarios.

The researchers estimated that if the 45 per cent rate was reduced to 20 per cent, there would be a Net Economic Benefit to the nation of just over £85m after five years. This benefit results from the additional maintenance spend, the additional tourism activity arising from houses being open to the public for the first time, and the positive effect on overall wellbeing, as expressed in monetary terms. The benefit generated by the zero per cent tax rate over the same period is less than this (at £78m).

The full business case can be seen here:
https://www.historichouses.org/uploads/assets/uploaded/ba0b7979-fb87-4f8d-9fe3acac1d3bd96c.pdf

What is the revenue implication for the Treasury?

A reduction in the Income Tax rate applicable to HMF income would, of course, cost the Government in terms of foregone tax revenue. Holders of existing HMFs would pay less Income Tax. The research indicates that they would also top-up the assets in their HMFs, thus generating even more after-tax income.

The lower rate of Income Tax – as evidence by the survey research – would also entice hundreds of owners of historic houses to establish new HMFs and move assets into those HMFs. This would increase the after-tax income for these historic houses (with a consequent reduction in Income Tax immediately payable to the Exchequer).

If the income tax rate was reduced to 20 per cent, the estimated costs in year 1 (at 2019 prices) would be £14.7m, increasing to £23.1m in year 5. But the net cash cost would be less than this, since it would be partially offset by direct increases in tax revenues arising from the additional repair and maintenance activity that would be carried out generating 0.5m), and VAT and other tax generated from the additional tourism spending that would take place (£1.9m in total) – in total, a direct increase in tax revenue of £2.3m in year 1 rising to £4.6m in year 5.

The net cash cost of the change would therefore be £12.4m in year 1 rising to £18.5m in year 5. But these figures alone do not take into account the wider benefits that would accrue.

What are the wider economic effects of the proposed change?

Any additional after-tax income would be channelled into the maintenance, repair and preservation of historic houses. The statutes already provide that this income cannot be used for any non-heritage purpose. In many parts of the UK, this additional expenditure on maintenance, repair and preservation will generate additional economic benefits for regional economies – that is, the regions of the UK that are currently operating below their full economic capacity. At the 20 per cent rate, these additional economic benefits are estimated to be £2.2m in year 1, rising to £4.4m in year 5.

Improvements in historic houses will allow them to increase the number of days they are open to the public, and thereby, increase their visitor numbers. Some of these additional visitors will be from outside the UK; some will be UK residents redirected from travelling outside the UK (i.e. retained domestic tourists). These additional visitors – international and retained domestic – will generate additional tourism spending in the UK – largely in the local towns surrounding historic houses – which will generate additional GVA, employment and tax revenue for the UK. At the 20 per cent rate, the additional benefit from tourism in year 1 is calculated at £5.1m, rising to £10.2m in year 5.

In other words, the business case practically breaks even when these economic and tourism benefits are taken into account.

What are the additional wellbeing benefits?

The additional number of houses open to the public are estimated to generate an additional wellbeing factor, which has also been taken into account in the business case. This is a monetary figure assigned to the benefits that arise from there being more opportunities to visit more houses. Based on a reasonable assessment of the wellbeing benefits that arise in either scenario, the economists are able to reach a monetary value of either £89.4m (20 per cent) or £100.8m under the zero per cent scenario.

Hence, the research demonstrates that there is a net economic benefit to be gained in both the 20 per cent and the zero per cent scenario. The benefit is greatest however when the income tax rate is reduced to the basic rate (20 per cent) rather than waived altogether.

Net economic benefit, 45p → 20p scenario (£m)

	Year 0	***Year 1***	***Year 2***	***Year 3***	***Year 4***	***Year 5***
45p → 20p						
Costs						
Static costs	***0.0***	***6.3***	***6.3***	***6.3***	***6.3***	***6.3***

Behavioural costs: HMF top-ups	*0.0*	*0.3*	*0.5*	*0.5*	*0.6*	*0.6*
Behavioural costs: New HMFs	*0.0*	*8.1*	*12.2*	*14.2*	*15.2*	*16.2*
Total costs	*0.0*	*14.7*	*18.9*	*21.0*	*22.1*	*23.1*
Benefits						
Maintenance, repair and preservation expenditures	*0.0*	*2.2*	*3.3*	*3.8*	*4.1*	*4.4*
Tourism	*0.0*	*5.1*	*7.6*	*8.9*	*9.6*	*10.2*
Wellbeing	*0.0*	*44.7*	*67.1*	*78.2*	*83.8*	*89.4*
Exchequer revenue	*0.0*	*2.3*	*3.5*	*4.1*	*4.4*	*4.6*
Total benefits	*0.0*	*54.3*	*81.5*	*95.1*	*101.9*	*108.7*
Net benefit/(cost)	*0*	*39.6*	*62.6*	*74.1*	*79.8*	*85.5*

Source: Saffery Champness / Nordicity estimates based on data from online survey of Historic Houses members (2018), DCResearch (2017, p.35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p.20), Barclays (2017, p. 3), Fujiwara et al. (2014), ONS and HMRC.

Note: Figures may not sum to totals due to rounding.

Net economic benefit, 45p → 0p scenario (£m)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
45p → 0p						
Costs						
Static costs	0.0	11.3	11.3	11.3	11.3	11.3
Behavioural costs: HMF top-ups	0.0	2.6	3.9	4.5	4.8	5.1
Behavioural costs: New HMFs	0.0	16.4	24.6	28.7	30.8	32.8
Total costs	0.0	30.3	39.7	44.5	46.9	49.2
Benefits						
Maintenance, repair and preservation expenditures	0.0	4.4	6.7	7.8	8.3	8.9
Tourism	0.0	5.7	8.6	10.1	10.8	11.5
Wellbeing	0.0	50.4	75.6	88.2	94.5	100.8
Exchequer revenue	0.0	3.0	4.6	5.3	5.7	6.1

Total benefits	***0.0***	***63.6***	***95.4***	***111.3***	***119.3***	***127.2***
Net benefit/(cost)	***0.0***	***33.4***	***55.7***	***66.8***	***72.4***	***78.0***

Source: Saffery Champness / Nordicity estimates based on data from online survey of Historic Houses members (2018), DCResearch (2017, p.35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), ONS and HMRC.

Note: Figures may not sum to totals due to rounding.

What are the sectoral impacts?

The heritage sector has long argued that the tax arrangements for those with responsibility for looking after important parts of our built heritage need to be improved. The additional repair and maintenance work would mean more employment for skilled conservation teams, and for employees of maintenance suppliers.

What are the distributional impacts?

This is a tax change that relates to the owners and custodians of built heritage. The effect of it, however, would be to inject more investment in repair and maintenance, in properties that are dispersed across the country. Of Historic Houses' 1,500 members (not all of whom would be prepared to permit public access on a regular basis), fewer than five are houses in the metropolitan area of greater London. The majority are located beyond London, with a significant cluster in the Midlands, the north of England, and in Scotland and Wales.

What are the administrative, operational and compliance costs and issues?

These costs would be minimal, since the option to create an HMF is already on the statute book and is already in place. The additional houses that would take up an HMF if the income tax rate was reduced is estimated to be below 700 in total. The costs of managing the process would be borne by Revenue officials based in Nottingham, who are in turn supported by advisers from Historic England and Natural England.

What would the environmental impact be?

New Historic England research from Heritage Counts (released 26 Feb 2020), as outlined above, demonstrates the carbon benefits of repairing and maintaining existing buildings. This would be an incidental benefit to the business case outlined above, and does not factor in the calculation of the net economic benefits. In other words, when the carbon footprint of the benefits arising from repairs and maintenance is taken into account, the net economic benefit of the proposed change would be even higher.

Conclusion

The change we are calling for is relatively inexpensive and would demonstrate the Government's commitment to looking after some of the most important buildings in the country as well as promoting public access to them.

In 2016, the Chancellor invested £7.6 million in the repair of Wentworth Woodhouse in Yorkshire. The HMF proposal would mean a net cash investment of not much more than this figure being allocated each year to ensure that hundreds of houses in all parts of the UK can fund their long-term future.

Given that most heritage is in private hands, and private owners do not normally benefit from public grants or from a lower rate of VAT on repairs and maintenance, reforming the HMF regime would represent a significant improvement to the fiscal framework for incentivising maintenance.

Priority 3 - A commitment to the further the continuation of the Listed Places of Worship Grant Scheme.

Finally we call on the Government to confirm that the transformative Listed Places of Worship grant scheme will be funded at its current level (at least) beyond March 2021 so that recompense for the VAT incurred on eligible costs continues to benefit this internationally important class of buildings, enabling them to be kept in good condition and continue in use as social hubs. We also ask for a commitment from the Government that it will continue to work with the Places of Worship Sector to review and respond appropriately to the needs of listed Places of Worship.