

# Response to European Commission Public consultation on the reform of VAT rates



**07 March 2017**

The Heritage Alliance is England's largest coalition of independent heritage interests. We unite 104 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.

The Heritage Alliance is a long-term proponent for VAT changes to benefit the UK heritage and built environment sectors. Although the UK intends to leave the EU, the proposed VAT reforms could take effect prior to the UK's departure. Alternatively, if the reforms take effect after the UK has left the EU, a better EU VAT environment for historic buildings could provide an improved evidence base for our campaign for UK VAT change.

We have responded to the consultation online. This paper provides further detail of how the VAT system has led to distortions in the construction sector which have harmed UK heritage.

The Heritage Alliance has previously asked the UK government to reduce the rate of VAT from 20% to 5% on the labour element of 'renovation and repair of dwellings in private ownership, excluding materials which account for a significant part of the value of the service supplied' [by amending the Value Added Tax Act 1994] as permitted under [European Union Directive 2009/47/EC amendment] Annex III of the VAT Directive 2006/112/EC.

The reduction in VAT from 20% to 5% on renovation and repair of dwellings in private ownership would create significant economic, social and environmental benefits for England's historic environment.

The UK's current VAT regime disadvantages work to existing buildings by adding 20% to repair, maintenance and adaptation work – yet new build construction has a zero VAT rate. This aspect of the current VAT regime is one of the biggest threat to the future of our heritage. Repair and maintenance is vital. However, the current system incentivizes the demolition of historic buildings which require significant maintenance work due to the increased tax burden compared to new construction.

In 2014, research by the Cut the VAT Coalition, of which we were a partner, demonstrated that a cut in VAT on housing renovation and repair would bring substantial benefits over the life-time of the 2015-20 parliament, by providing a huge stimulus of more than £15 billion to the economy. A detailed breakdown and link to resources of why a reduction in VAT would benefit the UK economy can be seen in the evidence section below.

Sadly, the UK Government has not cut VAT as we have requested. This is most likely because the Directive only allows up to two reduced rates set at 5%.

The EU Commission should consider setting a mandatory EU wide reduced rate of 5% on the labour element of 'renovation and repair of dwellings in private ownership, excluding materials which account for a significant part of the value of the service supplied' as part of its reform of the EU VAT system. This would have huge positive effects for Europe's heritage, economy and environment.

The heritage of England and the EU is a great asset- a source of pride which can drive economic growth. Well maintained heritage assets have positive social, economic, environmental and cultural impacts for Government, businesses, communities and individuals. VAT policy should be reformed to ensure a level playing field in all Member States between the VAT treatment of maintaining heritage assets and new buildings. Such a move would provide a huge boost for Europe's cultural heritage and would be a fitting way to mark the first European Year of Cultural Heritage in 2018.

### **What is the evidence of this reduction having a positive impact?**

The housing renovation and repairs market is huge. Evidence from the Isle of Man and the Netherlands illustrates the benefits of reducing VAT on the labour element of all housing renovation and repair work.

#### **Case Study: The Isle of Man**

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 submitted to the EU a proposal for a 'Labour Intensive Services [LIS] experiment', which was adopted as statutory by the Crown Dependency on 1st January 2000. This experiment meant that most domestic renovation and repair work, on which VAT of 17.5% was applied, would be charged at 5%. The Statutory Document (104/00) adopted by the Isle of Man (came into effect in 2002) which altered its Value Added Tax Act (1996) interpreted "renovation and repair of private dwellings" as buildings referring to dwellings, buildings solely or primarily used for a relevant residential purpose, buildings belonging to a charity and ecclesiastical buildings.

The evaluation report on the experiment conducted in the Isle of Man illustrates that, whereas Isle of Man policy had favoured green field site development, the measure ‘appeared to address the problems of renovation, rejuvenation and regeneration of existing property in built up areas’. The report 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. The report concluded:

“Whilst not all the data sets are available, it is apparent from the VAT details, the trade survey, other Government Departments input and general hearsay and discussion with the general public that, from the Isle of Man’s perspective, the experiment has been successful in achieving its and the EU’s aims of creating employment and reducing the size of the shadow economy. In addition there have been other benefits to the Government and people of the Island, including improvements to the existing housing stock and reduced pressure on green field site developments. There has been far less pressure on builders to cut corners, reduce prices and work outside the system - the knock on effect of this, according to the Employer’s Federation is happier customers and staff, fewer complaints and staff movements, all of which contribute to improved profitability. All concerned have expressed the desire to continue with the regime and for it to become a permanent feature.”

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 Experian to [produce a report](#) when VAT on RMI was at 17.5%. The report argued that reducing VAT to 5% would stimulate the economy by £1.4bn by the end of 2010. The research argued that the initial net revenue loss, once the returning benefits of reduced social security and increased income tax, national insurance and employers insurance contribution are taken into account would be much smaller.

This was followed by a [second research report \[pdf, 1.5mb\]](#) by Experian commissioned again by the Cut the VAT Coalition, which showed that a reduction in the rate of VAT on housing renovation and repair work 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.

A reduction in the rate of VAT from 20% to 5% on the labour element of all housing renovation and repair work from 2015 to 2020 could generate significant economic and social benefits to the UK and other Member States.

### **Where can you find further information and other documents?**

- Country Land and Business Association, 'How to pay less or no VAT on work to Heritage: mitigating the damage from the Government's 2012 Tax Raid on Heritage'  
<http://www.cla.org.uk/rural-policy-advice/legal-and-professional/heritage/how-pay-less-or-no-vat-work-heritage-mitigating-damage-government%E2%80%99s-2012-tax-raid-heritage>
- Country Land and Business Association, 'Saving VAT on work to Heritage and other existing buildings' CLA69 [Available to order on CLA website](#)
- [Cut the VAT campaign website](#)
- English Heritage, 'Tax Relief for Listed Buildings and other Heritage Assets'  
<http://www.englishheritage.org.uk/professional/advice/hpg/assistanceforowners/taxrelief/>
- [Experian Report 2011](#): The Opportunities and Costs of Cutting VAT: The effects of selected reductions in the rate of VAT on the labour element of housing repair, maintenance and improvement: A Report for the Cut the VAT coalition
- Experian Report March 2014: An estimate of the effects of a reduction in the rate of VAT on housing renovation and repair work: 2015 to 2020.  
<http://resources.fmb.org.uk/docs/VATResearchFinal.pdf>
- HMRC information on VAT and Construction  
<http://www.hmrc.gov.uk/vat/sectors/builders/construction.htm>
- Seely, A. 2013. 'VAT & Churches' House of Commons Library. SN1051. 5 November 2013
- Seely, A. 2013. 'VAT on Construction' House of Commons Library. SN00587. 3 July 2012
- Seely, A. 2013. 'VAT: European law on VAT rates' House of Commons Library. SN2683. 28 August 2013

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