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BUILDING · CONSERVATION

*Making Heritage Work*

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Dear Mr Roberts

### **VAT: ADDRESSING BORDERLINE ANOMALIES**

The Institute of Historic Building Conservation (IHBC) is the professional body of the United Kingdom representing conservation specialists and historic environment practitioners in the public and private sectors. The Institute exists to establish the highest standards of conservation practice, to support the effective protection and enhancement of the historic environment, and to promote heritage-led regeneration and access to the historic environment for all.

Thank you for inviting us to participate in this consultation. Our interest is in the proposals for VAT on approved alterations to listed buildings as set out in Chapter 7 of the Consultation. We were a signatory to the joint letter to the Chancellor of 1 May 2012 from 17 heritage and construction industry bodies, which no doubt you have seen. However we would like amplify the points made in it and would invite you to follow our argument as follows:

#### **1. The listed building obligation of owners**

The listing of buildings is a statutory recognition of the national cultural value of the best of the nation's historic buildings. Buildings are listed according to their historic significance and not with any reference to the circumstances of their ownership or the means of their owners. Listing places significant obligations on owners to retain and maintain the historic significance of the building. In terms of maintenance this usually means the use of matching historic materials and the adoption of traditional craft techniques which can be significantly more expensive than those which might be used on unlisted buildings. Similar implications exist for schemes of alteration, extension and reuse.

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## **2. The implications for Government**

The IHBC believes that the Government, having determined that private property owners should be responsible for maintaining the nation's heritage in this way, should recognize the obligation by making the process as simple as possible and by reducing the costs of the obligation as far as possible.

Over the years there have been a number of reports for the Government which criticize the planning system for its supposed inflexibility and inability to facilitate development in the nation's interest. As part of the planning system, works to listed buildings comprise a significant proportion of caseload; and works to listed buildings similarly comprise a significant proportion of all building work.

Yet the current proposal to apply VAT to alterations to listed buildings will have the effect of making schemes for listed buildings harder to fund and thus harder to implement, at a time in which the building industry has a major contribution to make in the nation's economic recovery. The IHBC thinks that the Government should be playing its part in promoting the sorts of activity through its application of taxation rates in support of its own policy in the recently published National Planning Policy Framework (in England) that the planning system (which includes heritage issues) should play its full part in the promotion of sustainable economies and communities; and the Scottish and Welsh Governments' promotion of sustainable economic development.

## **3. VAT for the maintenance of listed buildings**

The Consultation notes that the proposal will remove the anomaly that the maintenance of listed buildings is VATable at a higher rate than alterations, which therefore promotes alterations over maintenance. The IHBC has campaigned for many years to have this anomaly removed through the reduction (preferably to zero) of the VAT rate for the maintenance of listed buildings, thus providing no fiscal disadvantage to the timely maintenance of the nation's heritage.

The removal of the anomaly in the manner proposed not only fails to do this but additionally creates a 20% cost increase for those projects where alteration is required to enable listed buildings to find viable new uses. In our view this is just as perverse as the original anomaly particularly as the reuse of existing buildings is an intrinsically sustainable one, using fewer resources and emitting less CO<sub>2</sub> than new building.

## **4. The effect of the proposals on projects involving alterations to listed buildings**

You have been made aware by other contributors to this debate of numerous case-studies of projects which will have to be abandoned because of the effects of the proposals on project costs. Many of these emanate from the transfer to local communities of matters affecting their future as widely promoted by the Government under the general concept of "localism". These include the acceptance of statutory functions, and other functions previously run or promoted by local authorities and the transfer of Government and local authority assets into the community. Both these are likely to be set back by the proposals because the use and reuse of historic buildings is a frequent feature of such schemes. Community and charity groups are typically not VAT registered and will be particularly badly hit.

A further concern is, that by adding to the cost of schemes, the Government will be promoting cost-cutting in scheme implementation to the detriment of the historic buildings concerned. This is most likely to occur in proposals which are suddenly faced with a major funding gap caused by a 20% increase in costs, and could, in some circumstances, cause the need for listed building consent to be ignored in attempts to avoid having to pay VAT by the pretence that the works are new building and thus zero rated.

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## 5. The fiscal implications

We are fully aware of the state of the nation's finances but would urge that a measure which produces Government revenue in the short term may well not be in the nation's long-term interests. The putting off of the maintenance of listed buildings, or of works necessary to secure their long-term future, is not necessarily going to provide good value for money for the nation in the end, particularly if this gives rise to undermining the value of historic property or increases in statutory intervention and the emergency rescue of threatened heritage. The IHBC urges the Government not to overestimate the fiscal return of the proposal in the light of this.

## 6. The VAT rates

The recent increase in the standard VAT rate to 20% has accentuated the impact of the proposal for affected projects. We believe it is within the Government's power to apply VAT rates that vary from the standard rate in relation to heritage, housing and other specific development types. We have been informed of such practice in several EU countries. Notwithstanding our views on the proposal in principle, we would urge the Government to consider applying a lower rate (say 5%) to both maintenance and schemes of alteration. We believe this to be allowable under EU VAT rules. An intermediate rate might be set to lower the impact on overall revenues.

## 7. Timescales

The IHBC is sure that the Government understands the very significant lead times for schemes involving listed buildings often involving complexity of investigation, design, preservation, and funding that do not attach to "ordinary" building projects. A transitional arrangement (Questions 18 and 19) which refers merely to the terms of a building contract or partial completion is an inadequate response to the situation. The lead time for any proposals should be related to the much longer timescale within which significant expenditure may have already occurred on professional fees and other pre-contract costs. We suggest 2 years as a minimum or, alternatively, the submission of an application for listed building consent, which indicates a substantive intention to undertake the works.

## 8. Comments on the Impact Statement (Question 20 and Annex B – Table 6)

The IHBC believes that some of the impacts have been underestimated. The **impact on individuals and households** is calculated on the basis that relevant alterations will take place on only 1 dwelling in 35 each year. No basis is given for this assumption and in our view major works property tend to occur at a frequency of considerably more often than once in 35 years on average. We think a figure in the order of 30,000 would be more likely.

We think the assessment underestimates the impact on **places of worship**. Places of worship are more and more frequently being adapted to community functions in line with Government objectives for communities and the voluntary sector. In the absence of any specific commitment, we think it is unlikely that the DCMS VAT scheme will be capable of covering the VAT shortfall under the proposal.

We also think that the **impact on business including civil society organisations** is underestimated. The salient feature is not merely the number of businesses or organizations but the extent of the impact on them. Works to listed buildings is typically undertaken by **small businesses** many of whom specialize in this type of work.

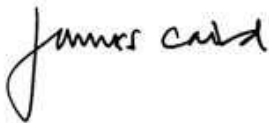
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## 9. Conclusion

In summary we urge the Government to reconsider the proposal by:

- not implementing it;
- improving the prospects for heritage outcomes in the national interest in line with Government policy by reducing the VAT rate for the maintenance of listed buildings;
- introducing a low unified 5% VAT rate for all works to listed buildings;
- allowing a longer timescale for the introduction of any changes so that projects in progress are not adversely affected;
- if the proposal is nevertheless implemented, notwithstanding our strongest representations that it should not be, for exceptions to be made for zero rating in certain circumstances. We suggest cases in which works of alteration to listed buildings which are buildings in charitable or community ownership, buildings listed by English Heritage or the local authority as being at risk, grant funded alterations, and places of worship.

Yours sincerely



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