

Brussels, 31 May 2011

**Joint position on
the Consultation Paper on “the Green Paper
on the future of the VAT
Towards a simpler, more robust and efficient VAT system”**

COM(2010) 695 final

Introduction

Conscious of the key role of the building stock in solutions to numbers of key challenges that European citizens are facing, the European Historic Houses Association and the European Landowners Organization are concerned by the fact that the review of the Current VAT system could jeopardise the efforts of property owners, investors of listed and non listed buildings, in cities and rural areas, to maintain or refurbish dwellings for rental or selling purposes. Moreover, it is not the right moment, when new Member States are restructuring and regenerating their building stock, for the European Union to encourage the potential limitation of economic incentives in favour of the building sector.

We have already experienced positive outcomes of the current reduced VAT system and we do not consider the proposal of a uniform VAT system to be cost effective and coherent with regard to the needs at local level.

Listed and non-listed historic buildings, as well as their park and gardens, should be considered as public goods as they are contributing to the environmental and economic value of the European Union for the benefit of European citizens. In addition to cultural and social profit, we wish to emphasize that private historic houses also have great economic value as they assist various local regional SME activities, creating jobs and attracting tourists. The micro economy generated by historic buildings is a non-profit asset and we intend to inform and encourage governments and policy-makers at the European Union to adopt measures, especially VAT reduction that would recognize and support historic houses' activities. The economic impact that can generate the cultural heritage of a region is often unknown. That is why, we welcomed the Council of Europe's decision¹ in October 2010 that stated *“European cultural heritage is of exceptional economic importance for the tourism industry, generating estimated **annual revenue of € 335 billion**, and that many of the **9 million jobs** in the tourism sector are linked to it directly or indirectly. Moreover, the market for conservation of this heritage is estimated at some € 5 billion per year.”* We acknowledge that heritage enables local regeneration

¹ Doc 117022/10) in 3035th COMPETITIVENESS Council meeting , Luxembourg, 12 October 2010

and consequent attraction of high value added businesses. Indeed, it is often an effective use of assets for global corporations to site headquarters buildings in attractive, culturally rich locations which attract a talented workforce. Thus successful companies relying on employing the best people will choose where they want to live. So the City of London, which is a place of ancient character which attracts big business, is good example and was ranked first in the latest GCFI survey of financial centres. This is an important area of concern as the enhancement of cultural heritage generally contributes to a better society.

We welcome the opportunity to comment on the Commission's consultation on the future of the VAT system. Our main concerns are notably on questions 6 and 20.

Q6. Which of the current VAT exemptions should no longer be kept? Please explain why you consider them problematic. Are there any exemptions which should be kept and, if so, why?

We strongly advise to keep the extension of reduced VAT rate for local services, as they do not lead to distortion of the single market and are labour intensive, in the following categories of goods and services of high importance for our sector:

- Renovation and repairing and cleaning of all dwellings (whether public or private, former industrial buildings)
- Gardening, landscaping and maintenance of gardens and parks
- Renovation, alteration, repair, maintenance and cleaning of places of worship
- Repair and maintenance of movable property of cultural importance
- Repair, restoration and maintenance of cultural heritage and historical monuments

Q20. Would you prefer to have no reduced rates (or a very short list), which might enable Member States to apply a lower standard VAT rate? Or would you support a compulsory and uniformly applied reduced VAT rates list in the EU notably in order to address specific policy objectives as laid out in particular in 'Europe 2020'?

A. Reduced VAT for the building sector

The focus of European Historic Houses Association and the European Landowners Organization to make a submission on this consultation is to reassert the necessity to enable member states to apply a lower standard VAT rates on renovation and repair of housing.

We estimate that the 5 % rate should be the basic line for member state when considering applying this alternative on specific services. We do not want to see a

uniformed reduced VAT as we would fear an increase of the minimum standard. It will affect the situation in the estates which already choose to apply these incentives as France, Belgium, and Netherlands etc... We do not see any reason why the EU should compel member states to apply reduced VAT. Nevertheless, we would encourage that in certain circumstances, when some social and economic considerations are predominant, member states should be able to use this tool, as incentives for some specific services. As it is stated in the European Commission comment, it seems that the variation in the standard rate does not disrupt the single market. The European Historic Houses Association stresses the European Commission comment when stated that “the use of reduced rates as a policy instrument is often advocated notably for health, cultural and environmental reasons to provide easier and more equal access to educational and cultural content and incentives for eco-innovation and knowledge-based resource efficient growth.” France, Netherlands Belgium and Portugal are already using this kind of measure as an alternative tool when there is an economic and social need.

When it comes to the question of repairing and renovation, we would encourage all the member state to adopt a reduced VAT to allow the owners to maintain their houses in good condition and encourage the creation of employment for craftsmen, architects etc...Already in 2007, the Copenhagen Economics Study stated that there may be specific economic benefits from operating a reduced rate in carefully targeted sectors and in 2008 the European Commission recognised that a reduction of rates of VAT for the renovation and repair of housing generally would bring economic and social benefits for the wider community, because more work would be completed by experts, owners would be able to concentrate on contributing to the economy through their particular skills (rather than through “Do It Yourself”), the condition of the housing stock would be improved and more activity would be channelled through the formal economy.

Moreover, we highlight the potential for the current VAT regime to militate against the adoption of energy efficient measures. We advocate that the existing building stock and non listed buildings with historical value would better adapt to the requirements of the Energy Performance of Buildings Directive (EPBD) with appropriate tax incentives.

We consider also that there is a real need for a simplification and rationalisation of the current VAT rates structure, in particular the reduced VAT rates. We believe it is desirable to ensure that the application of reduced VAT rates to be less time consuming and bureaucratic for the private owners.

B. Keeping the VAT Reduction on labour

The European Historic Houses welcomed in 2009 the European Council decision to give member states the option to apply a reduced VAT rate to certain “labour intensive services” including on the “renovation and repairing of private dwellings excluding materials which account for a significant part of the value of the service supplied.” as well as “window cleaning and cleaning in private households”.² Without prejudice to the case in C), below, for a reduction specifically for repairs to historic buildings, including the materials as well as the labour inputs, we fully endorsed this decision, as the labour costs at least of repairs and cleaning to historic and listed buildings could be covered by this provision, provided they were dwellings.

In sectors employing many low skilled workers, it was proved that it could be beneficial in order to permanently create new jobs. According to the “Cut the VAT” Coalition Survey, in UK alone, this measure would support the creation of up to 24,200 extra full time equivalent jobs in 2010 alone with total jobs created in the construction sector rising to 34,500 by the end of 2019. And the knock on effect of this extra job creation could create an additional 31,000 jobs in the wider economy as demand for related materials, products and services increased and as construction pay packets are spent on goods and services in other sectors in 2010, and up to 47,000 over the next decade.

C. Reduction of VAT on renovation and repair of housing for historic buildings (listed and non listed)

The European Historic Houses Association believes that there are particular arguments for the encouragement of reductions of VAT rates to be offered to repair, maintenance and renovation of historic buildings.

We consider that zero reduced rates should be maintained as a fundamental tool under certain circumstances, especially in cases where property owners need to undertake considerable alteration works on historical buildings. However, we do not see why maintenance and restoration of historical buildings should not also benefit from the same zero rates, or at the very least, from a reduced tax rate given that regular reparation and maintenance works are essential for the long-term preservation of historical buildings, and can hereby contribute to the environmental performance of the building.

In July 2008, the Commission suggested that states should be allowed to charge a reduced rate on the supply of all housing and on the “renovation, repair, alteration, maintenance and cleaning of housing and of place of worship and of cultural heritage and historical monuments recognised by the member state concerned”³.

² COUNCIL DIRECTIVE 2009/47/EC

³ COM(2008) 428 final & European Commission press notice IP/08/1109, 7 July 2008

Unfortunately this measure has not been followed by the Council and we are still convinced that where member states apply a high rate of VAT to repairs and maintenances of historic buildings this has several adverse consequences:

- *Incentivises alterations*, including major alterations, leading to more change than necessary or desirable.
- Encourages owners to leave buildings to rot to such a state that *demolitions* justified.
- *Discriminates* against adequate repairs and maintenance, and discourages a proactive, “stitch in time” approach.
- *Penalises small scale properties* where the funds for repairs are scarce.
- *Dilutes the effectiveness of any grant aid* for repairs and maintenance.
- *Undermines an environmentally sensitive approach*, by penalising re-use of buildings, in favour of energy-intensive alteration and re-build. Moreover, It is more and more recognised that historic buildings can be part of the solution to climate change as they can teach us lessons about how to live in a low carbon economy.

Cultural heritage is threatened by the VAT burden that repairs and maintenance work carries. As long as it is more economical to demolish and rebuild than to restore, Historic buildings will be in danger, cutting the rate of VAT will help to redress that balance:

- *Repair and re-use of historic buildings*, especially as part of wider rural or *urban regeneration*, would promote tax revenues to local authorities and member states. It has been estimated by the New Economics Foundation in the UK that a relief from VAT on repairs to listed buildings, on the lines of the relief already provided in the UK in respect of places of worship, would promote tax revenues in excess of the cost of the relief.
- Repairs also generate *local incomes and employment*. The report from the “Cut the VAT” Coalition stated that historic dwellings, being older than the rest of the housing stock, are likely to require a higher level of maintenance on average per year, thus any reduction in the VAT rate would greatly benefit the historic dwelling sector. The National Trust estimates that the organisation’s VAT liability on the labour element of repairs to its domestic properties is approximately £700,000. If the VAT rate on housing R&MI (repair and maintenance) was to be reduced to 5% from 17.5% across the board, the National Trusts VAT liability on this element of expenditure would fall to around £200,000, a saving of £500,000. This saving could

fund repairs to around 330 cottages a year at the average spend of £1,500 per cottage.⁴

- Creates significant numbers of *sustainable jobs in the tourist and artisan sectors* whilst promoting sustainable regeneration and cultural diversity. Historic heritage is also a major reason why tourists visit one country, and thus a major source of employment and revenue. Reducing VAT on restoration work will therefore stimulate regeneration, tourism and employment.
- VAT relief would enable more *charitable organisations* to take on more historic buildings from local authorities.
- VAT relief would *boost the voluntary sector* – which is a significant player in restoration and maintenance of historic buildings – and foster conservation skills.
- Older housing “costs less to maintain and occupy over the long-term life of the dwelling than more modern housing”.

Conclusion

Europe’s historic environment is particularly rich and varied; it is our legacy to the future. We owe it to future generations to make sure it is protected and enhanced. The historic environment enjoys tremendous public support and is all around us, manifested most vividly in our historic buildings. These buildings contribute to the economy and citizen education by attracting tourism and investment and **providing** a focus for successful regeneration. Historic buildings are a non-profit sector that generates large incomes to the benefits of the commercial sector (e.g. the hotel and catering industry) but little to its own profit. A reduced VAT rate for the renovation and maintenance of Historic buildings could provide the public authority with an instrument to transfer a fair part of this income back to the non-profit sector.

Moreover, these measures would be in coherence with the European Commission ambition to develop EU actions on sustainable tourism. In its Communication⁵ adopted in June 2010, the EC is advocating for a European action framework responding to social matters, territorial cohesion and the protection of and capitalisation on natural and cultural heritage. To achieve the objective to promote the development of sustainable, responsible and high-quality tourism, it is in the EC’s

⁴ 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, February 2010

⁵ Communication, Europe, the world's No 1 tourist destination – a new political framework for tourism in Europe, COM(2010) 352 final

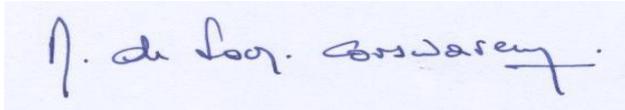
interest to preserve most visible historic buildings of the EU that represent a significant part of tourism in Europe as we have already pointed out.

This heritage has something to offer some of the most pressing issues facing the member states of the EU today: It can help us to define our local, national and European identities - helping us to understand ourselves as well as those around us and stimulate the intercultural dialogue. But we cannot take them for-granted.

Historic buildings are vulnerable. Securing these benefits now and in the future demands action and investment – from the heritage sector, member states working through the fiscal framework of the EU, business and all who care for our heritage. But these owners and managers need the support of member states and the EU to secure the greater investment and fiscal support needed to maintain historic buildings in good condition, for current and future generations to enjoy.

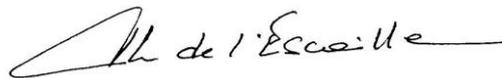
We highlight the particular merits of applying reduced VAT rates to the repair, maintenance and renovation of historic buildings and we offer to discuss these issues with the Commission, as it considers its action following this consultation.

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May 2011

About the signatories to these joint position

The European Historic Houses is a European association, based in Brussels, voicing the interests of historic houses owners. It aims its work towards major issues linked to culture heritage such as fiscal issues, the energy efficiency issue (see EPB Directive) and security issues (keeping and illicit trafficking of cultural goods). The Association brings together 18 national members and represents more than 50,000 historic houses in Europe.

www.uehha.org

The European Landowners' Organization (ELO), its partner is a federation representing the landowners' and rural entrepreneurs' interests at the European level. It targets its actions on land use and housing, via seven major areas of European importance: environment, renewable energy, agriculture and rural development, status of private property and companies, forest, enlargement and trade.

www.elo.org