



2. Cut VAT from 17.5 per cent (15 per cent for the next 13 months) to five per cent for all building repair and maintenance work.

In 1999 the Council adopted Directive 1999/85/EC covering VAT on labour-intensive services which allowed the application of a reduced VAT rate to certain specific labour-intensive services, but only for an experimental period of three years so as to test its impact, in terms of job creation and in combating the informal economy. This temporary period was prolonged several times and is now valid until the end of 2010.

The list of categories to which specific Member States were authorised to apply a reduced rate included “Renovation and repairing of private dwellings, excluding materials which account for a significant part of the service supplied; today Member States are allowed to apply reduced VAT rates in this area until 31 December 2010.

This campaign believes that a definitive provision enabling Member States to apply reduced rates at the level provided for in the current Community legislation to the renovation and repairing of private dwellings and to extend the provision to include renovation, alteration, repair, maintenance and cleaning of places of worship, schools, housing, business premises and other non commercial buildings.

A meeting of the European Council in December 2008 concluded that, “the possibility, for the Member States that so wish, of applying reduced VAT rates in certain sectors: the European Council requests the ECOFIN Council to settle this issue by March 2009;”.

The benefits in reducing VAT that will accrue for both society and business are many and varied and include at least 10 convincing reasons.

(1) Reap economic benefits

As a result of a European Commission’s initiative in 1999 we know that a reduced rate of VAT can reap economic benefits. The experiment set out to determine whether or not a reduced VAT rate would increase employment and reduce the informal economy. The renovation and repair of private dwellings was included in the list of labour intensive services where VAT could be reduced. Seven countries including the UK (Isle of Man) took part. In order to monitor the assessment of this experiment, the European Commission sent the relevant Member States a questionnaire listing the main points needed to evaluate the measure reliably. In December 2007, the Isle of Man Treasury reported on the impact of a reduced rate of VAT charged on the renovation and repair of private dwellings in the United Kingdom (Isle of Man) and it makes interesting reading to those in government who still doubt the validity of the argument:

“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."

Most important was the final conclusion that, **'The actual tax take increased despite the 12.5 per cent differential in VAT for the comparable organisations'** and that, **'The experiment had been a fiscal success on the Island.'** Clearly, this case study shows that a reduced rate of VAT can reduce the informal economy.

Reports from other Member States concluded:

Belgium

- According to the Belgian Government the reduced VAT measure met the objectives of growth in both turnover and employment. Growth rates in the activities covered were well above general growth.

France

- The creation of some 43,000 new jobs in the construction industry.
- 5.6 per cent growth of turnover in the construction industry in the order of €1.4 billion.

Italy

- The creation of some 65,000 – 75,000 new jobs in the construction industry.
- 35,000 enterprises emerged from the informal economy and started paying VAT for the first time.

Portugal

- Construction companies enjoyed 20 – 25 per cent growth. This is well above average and should have created new jobs accordingly.

The Copenhagen Economics Study commissioned by the European Commission concluded that:

"Lower VAT rates can increase overall productivity and GDP in a Member State if they can induce consumers to spend fewer hours on do-it-yourself (DIY) activities and more hours on their ordinary job and thus shift activities from DIY to the formal economy. A trained worker is typically more productive in his job than a person doing DIY. In addition tax revenue is likely to increase. Locally supplied services are industries where households have considerable scope for carrying out DIY (or buying from the informal economy). There is a sound economic argument for (substantially) lowering VAT rates on locally supplied services as the shift from DIY to formal activity is likely to lead to significantly higher overall productivity and higher tax revenue. The argument is significantly stronger in Member States with higher marginal income taxes and larger initial VAT rates. The productivity argument is, in particular, strong for activities with limited need for formal training and specialised machinery. There may be arguments for targeted reductions in VAT rates on carefully selected parts of locally supplied services. The same argument holds, albeit to a lesser degree, if lower VAT rates can induce consumers to spend less money in the informal economy. Similar gains in tax revenue can be expected."

(2) Reduce the number of rogue traders

According to UK Trading Standards in 2006 a staggering £1.36 billion was stolen by rogue traders from unsuspecting homeowners across the UK. Rogue traders flourish by evading VAT and offering the customer a cheap deal as a result. Reducing the rate of VAT on domestic building work to five per cent would reduce significantly the commercial advantage of the VAT evading trader. The financial incentive to choose a rogue trader will diminish and a level playing field will emerge instead. In time, this will drive the rogue traders out of the market as customers focus on quality and value not just price. Survey evidence suggests that over 50 per cent of customers would employ a VAT dodging tradesman to cut their costs. The evasion of VAT on domestic building work is endemic and the informal economy is estimated at £4.5 billion, which suggests a VAT loss of around £780 million per year. The proper enforcement of the existing VAT law is not a viable option, as it would mean a VAT inspector in every home. Cutting the rate of VAT is the only way to ensure the eviction of rogue traders.

(3) Reduce the number of empty homes

The UK currently experiencing an affordable housing crisis where demand is out-stripping supply in some places and prices have risen dramatically leaving first-time buyers with little hope of getting onto the property ladder. It is therefore surprising that there are 850,000 empty homes in the UK.

A key reason for this situation is the fact that some buildings require considerable repair work before they can be lived in. The high rate of VAT makes them too expensive for many owners to maintain or refurbish and encourages neglect leading to demolition and new build. For example, Hyde Housing Association recently paid £120,000 in VAT on a project involving 21 homes. With the reduced rate of five per cent VAT, they would have saved enough to refurbish another three homes. Moreover, the financial disincentive to repair and maintenance work caused by the high rates of VAT is often the root cause that allows homes to fall into disrepair in the first place. The resulting vacancy and dereliction blights whole neighbourhoods, depresses property values and attracts crime, putting unnecessary demands on the police and fire services. Conversely, the regenerative effect on the street and the wider neighbourhood of reusing empty property can be striking.

The Empty Homes Agency believes that the 17.5 per cent VAT rate favours new build over re-use, and therefore greater use of finite resources like greenfield land. They argue that it actively encourages neglect and decay. Bringing empty buildings back into beneficial use is an essential part of sustainable development and improving people's quality of life.

(4) Reduce the number of those living in substandard housing

According to the Government's own figures, there are 7 million homes classed as "non-decent" in England alone i.e. substandard in terms of their state of repair, kitchen and bathroom facilities, heating and insulation. The current high rate of VAT on building repair work acts as a disincentive for people, particularly in low-income areas, from maintaining their homes. In many instances, this results in people living in misery because they cannot afford to have basic repairs or central heating installed. What makes this worse is that these tend to be the most vulnerable people in our society, with the elderly particularly at risk.

The private rented sector has a disproportionate number of poor quality homes. The National Landlords Association (NLA) argues that the current high rate of VAT discourages private landlords from investing in their properties. The NLA believe that a reduced rate of VAT has the potential to make a positive impact in areas that need regenerating as well as supporting environmentally sustainable improvements to properties that reduce carbon emissions.

The Civic Trust argue that restoration projects, even on a small scale, can have a major effect by bringing in private capital to stimulate further projects, increase the attractiveness of an area, and start what they call “a virtuous circle of economic revival”. These effects can be measured through relative changes in land values. Some regeneration projects already benefit from reduced rates of VAT, but the overall effect is not enough.

(5) Protect the countryside

By making building repair and maintenance work more affordable, a lower rate of VAT reform would encourage the reuse of existing structures rather than continuing urban sprawl by building on green fields. Aside from the direct benefit of reducing demand for land, reuse of existing buildings also minimises the need to send demolition waste to landfill, the damage done by extraction and transport of construction materials (e.g. aggregates), and the demand for embodied energy (accounting for 28 per cent of carbon emissions over the lifetime of a house).

According to the Countryside Alliance if we do not want our countryside to be built over then we must change conditions so that it is cheaper and easier to make use of the existing properties we have in rural Britain. They go on to argue that the current regime of 17.5 per cent VAT rate acts a brake on the regeneration and re-use of vacant or under used buildings. Recycling our heritage by putting buildings back into beneficial use is an essential part of improving our quality of life.

(6) Stop the destruction of decent existing buildings

Demolishing old but useable properties to replace them with new build projects with a 20-year lifespan flies in the face of the principles of sustainability. However, this is exactly what current VAT policy encourages. The difference between having to pay 17.5 per cent VAT on building repair work and not having to pay any VAT on new buildings inevitably leads to decisions which can only be justified by reference to such an unjustifiably high level of taxation. For example, in Lewisham, in south-east London, a school sports hall less than 10 years old, built with Lottery funding and in need of renovation, was knocked down to build a new academy specialising in sports, because it was cheaper to do this than keep the old one and pay the subsequent £4 million tax bill associated with the renovation!

(7) Increase the number of low and zero-carbon homes

The most cost-effective way of increasing the energy efficiency of buildings is when they undergo major renovation. Currently the VAT rates are heavily weighted in favour of demolition and new build as opposed to refurbishment – 0 per cent VAT on new homes but 17.5 per cent on the renovation and repair of existing homes. While it is relatively easy to build zero-carbon homes, it is harder to retrofit the existing housing stock. Homes contribute 17.5 per cent of the UK’s total carbon emissions but existing grants and long pay back periods offer little incentive for householders to make their homes more energy efficient. Reducing the level of VAT from 17.5 per cent to 5 per cent on repairs and maintenance to buildings would provide the kick start that is currently needed to encourage every householder to make their home green.

(8) Help tackle fuel poverty

The number of people in the UK living in fuel poverty has doubled since 2004 and the increase in energy prices will only make matters worse. We know that even before the recent hike in energy bills a staggering 1.25 million pensioner households live in fuel poverty and that 22 per cent of older people living in fuel poverty go without gas or electricity in order to make ends meet. More worrying is the fact that in 2006 25,000 people over the age

of 65 died of cold related illnesses. The growing problem of fuel poverty is highlighted in the latest Scottish House Condition Survey which reveals that fuel poverty, defined as a household spending more than 10 per cent of its income on heating, rose from 18 per cent of Scottish households in 2004/2005 to 23 per cent of Scottish households in 2005/2006.

A cut in VAT would enable thousands of families to upgrade their homes to make them more energy efficient and enjoy a warmer winter. The problem is that the current high rate of VAT on building repair work acts as a disincentive for people, particularly those on low-incomes, from maintaining their homes. In many instances, this results in people living in misery because they cannot afford to have basic repairs or central heating installed.

(9) Help preserve our national heritage

Heritage is a major factor in attracting domestic and international tourists. Reducing VAT on repair and maintenance work will therefore stimulate regeneration, tourism and employment.

Britain's national heritage is threatened by the VAT burden that repairs and maintenance work carries. Buildings of historical interest – especially those that are locally important but do not enjoy the grant support that flows from national listed status – will continue to be lost to modern developments unless the costs of their maintenance can be reduced.

Maintaining the fabric of historic buildings is the responsibility of varied groups of people including charitable bodies who do not benefit directly from tourism expenditure.

The Bournemouth Natural Science Society for example is responsible for the fabric of a Grade II Victorian Villa (39 Christ Church Road, Bournemouth). The Bournemouth Natural Science Society is a registered charity and has been established for over 100 years. The problems of maintaining this old building grow year by year, because of its age, height and construction - lots of exposed painted timber. The fact that it is listed adds to those problems and to the cost of using only contractors suitable to work on a listed building which the society estimate lifts cost by at least 25 per cent.

1999: Dry rot treatment (second bout of uninsurable loss). The total repair bill was £18,569, including £2,766 in VAT. That VAT amounted to 32 per cent of the society's subscription income for that year.

2000: Re-pointing the whole of the building using special lime mortar and full painting of exterior wood work whilst the scaffolding was in place and re-glazing the roof lantern. Total repair bill was £33,640, including £5,010 in VAT. That VAT amounted to 64 per cent of the society's subscription that year.

The Civic Trust believes that the proper maintenance of our historic buildings encouraged by a reduced rate of VAT on maintenance and repair work will support and in many cases help to restore civic pride in the local environment. This they say will promote 'conservation led regeneration', which they state is acknowledged to be an important stimulus for social and environmental improvement in depressed areas. The regeneration will promote training and employment in traditional building crafts, thus giving younger people a wider skills base.

(10) Allow disabled people to have essential renovations made to their homes

VAT should be abolished on all Disabled Facilities Grant works. Working out VAT on Disabled Facilities Grant works is a minefield, with some items such as ramps and bathrooms being exempt, while other essential items such as accessible kitchens and bedrooms are not exempt. Charging VAT on this building work can reduce the available grant by up to 17.5 per cent (reducing the current maximum grant of £30000.00 to £24750.00).