



**1. The Church of England is calling for the return of the zero-rating of VAT on approved alterations to listed buildings owned by churches, through amendment to the Finance Bill.**

We urge the Chancellor to reconsider applying the extension of the standard rate of VAT (currently zero rated) to approved alterations to listed buildings owned by churches.

Zero rating for alterations is not currently being challenged by Europe and it fits with the objectives behind the retention of zero-rating in 1989 as permitted by the European Court of Justice. If HMG makes alterations to listed buildings subject to standard rate VAT this will, as a result of European requirements, be irreversible.

The Church of England understands the Government's wish to close unfair tax loopholes for owners of listed houses, but the provision of zero rated VAT for alterations to listed places of worship was not a tax loophole. It was the Big Society in action. This measure will have the unintended effect of penalising our 12,500 listed churches, almost entirely maintained by volunteers and voluntary giving, which are currently altering their buildings to make them suitable for use by the wider community. The extra financial cost to Church of England congregations is estimated at up to £20 million. **The extra burden this would impose will seriously threaten the continuation of such works.**

**2. What the change would cost the Church of England**

While only 2.5% of listed buildings in England are Church of England churches and cathedrals, the percentage of the tax take on Church of England church buildings from the proposed levying of VAT at the 20% rate on alterations to listed buildings would be **around 25% of the additional VAT to the Exchequer total** according to the Treasury figures in the consultation. That is because churches and cathedrals are community buildings with many being adapted at any one time to provide better facilities.

Therefore the burden on Church of England volunteers of raising funds for alterations to make their buildings sustainable and fit for purpose for use by the community is **disproportionately high**. It is also worth noting that:

- Parish churches receive no grant in aid from public funds or money from central church funds. All monies to maintain and develop these priceless heritage buildings are raised by local congregations.

- Alterations to churches give no Value Added in terms of property value which can be realised, as is the case for private property owners. The value added is not financial; it is simply for the benefit of the community.
- 45% per cent of England's Grade I listed buildings are Church of England churches and cathedrals.
- 60% of the Church of England's church buildings are medieval structures (as opposed to 15% of all listed buildings) and cost more to extend and enhance, because of their antiquity, high heritage value and the consequent need for traditional materials and highest quality craftsmanship and design.
- Unlike the major heritage building charities, each church and cathedral manages its own finances and only a very tiny proportion will be VAT registered.

### 3. What it will cost the Big Society

The Prime Minister said recently that the Big Society was “the biggest possible opportunity for churches up and down the country to have a real social mission”; our 12,500 listed church buildings do just that.

Activities range from drop-in centres for drug addicts, pensioners' lunch clubs, young mums groups, SureStart programmes. The vast majority of proposals for new works are for re-ordering to make such socially useful activities possible – the first step almost always being the installation of lavatories and basic kitchens. Not a swimming pool in sight.

We fear that losing zero-rated VAT will slow the momentum down and possibly halt it altogether. The examples below are selected at random from hundreds of others across the country.

#### **St Cuthbert, Copnor (Grade II Listed) - Diocese of Portsmouth**

An ambitious project is underway to create a new area for worship, a GP surgery, community rooms, pre-school facilities, a new entrance, and a café for use by the whole community within this urban parish in Portsmouth, which has high levels of deprivation. **Total project cost = £260,000. With VAT = £312,000**

#### **Tottenham St Ann (Grade II listed) - Diocese of London**

St. Ann's is an 'inner-city' church in one of the most deprived areas of North London, currently in mid-process of a project to turn the old organ room into a sound-proofed meeting room to run their counselling project to schools in East Haringey. They provide early intervention counselling provision to over 400 of the neediest and most vulnerable local children each year in weekly 1 to 1 sessions. **The cost of alterations to the space will be £60,000. VAT then adds another £12,000 to this total. The**

budget is already tight in a low income parish and therefore the project is now under threat.

### **Hay Mill, St Cyprian (Grade II listed) - Diocese of Birmingham**

Plans are underway to install modern toilet facilities and a small kitchen into the west end of the church, both for the use of the worshipping community, visitors and school groups. The church is adjacent to the factory where the first transatlantic telegraph cable was made and the area is about to be developed to celebrate this part of Birmingham's industrial heritage. The developments in the church building will enable it to be part of these developments. **Total cost is £18,000. VAT at 20% would be £3,600**, a small sum in a national context but enough to stop the project going ahead.

### **St Peter, Peterchurch (Grade I Listed) - Diocese of Hereford**

The re-ordering of the church for the delivery of a SureStart programme to a rural community. The building conversion was completed in the summer of 2009 and the new building is already being used extensively for community engagement activities, including the local lending library. Many community groups are meeting within the church building and a number of activities are being run by the Church. **Total project cost = £357,000. With VAT = £430,000**

### **Fir Vale, St Cuthbert (Grade II listed) - Diocese of Sheffield**

Fir Vale is an area of acute urban deprivation. A new extension will be built to the side of the church to create a new community meeting room, the main church area will have its many levels will be made more accessible throughout. Reordering will create a small youth project and youth café. **The total budget is £777,000. Under the current regulations the VAT cost is £39,000.** VAT at 20% on the whole would be £155,400. The parish shortfall for fundraising of £147,000 would be more than doubled with this additional VAT cost.

### **St Leonard, Yarpole (Grade II\* Listed) – Diocese of Hereford**

A project to re-order St Leonard's Church in Yarpole to provide a broad range of community uses. The closure of the shop presented the church with an opportunity to fill the perceived gap in this service provision. The services include a village co-operative shop, Post Office outlet, café and a flexible space for community and arts activities. There are now 100-130 people per week using the facilities, the police and local council hold drop-in centres in the café. **Total project cost = £243,000. If VAT had been levied at 20% - £290,000.**

### **Lichfield Cathedral (Grade I listed)**

The Cathedral is in the early stages of developing a plan to alter a listed building in The Close and turn it into an Education Centre, which will enhance the experience of visitors to the Cathedral and provide opportunities to make the heritage of the Cathedral more accessible to adult and school groups, including providing toilets. The estimated cost is at least £1m excluding VAT. Since this is not a Place of Worship, no VAT could be reclaimed through the Listed Places of Worship Grant Scheme ('LPWGS'), and therefore the abolition of zero-rated VAT could **increase the overall costs by £200,000**, jeopardising the project.

**Wakefield Cathedral (Grade I listed) - the project highlighted by the singing wife of the dean.**

The Chapter was days away from signing a contract for works that have already begun under a 'Letter of Intent' for a fully funded project involving approved alterations to the cathedral church. **The estimated additional cost is £200,000.**

#### 4. Economic and social impact of curtailing development work in church buildings

If congregations are unable to proceed with development projects on their church buildings this will have a serious negative impact on the building and traditional craft industries. Curtailing initiatives to improve education interpretation and welcoming tourists will have a serious economic impact. Approximately 15 million visits are made to those churches and cathedrals regarded as “major tourist attractions” out of an estimated 35-30 million visits made to churches each year (Church of England surveys and other indicators, excluding regular worshippers). Cathedral visiting alone is worth an estimated £91 million to the local economy (£150m with total procurement) and supports 2600 jobs (ECOTE 2004). It is also likely to result in congregations becoming discouraged and disengaging themselves from driving community-enhancing Big Society initiatives.

#### 5. Leveraging voluntary giving

Church Building projects are heavily reliant on voluntary giving. Some of this may come from wealthy donors; for most churches it comes from the generosity of thousands of people out of their post tax income, and from heroic and imaginative fund raising efforts. These efforts, almost always supported by the local community beyond the worshipping congregation, are in themselves a manifestation of the Big Society. Again adding 20% to the cost of fund-raising by removing the VAT exemption will be deeply discouraging for many communities, particularly as it runs counter to every public statement from Ministers on the subject.

The Church shares with other charities grave concerns about the impact of capping tax relief on charitable donations, also part of the Finance Bill. For instance a significant number of bold projects – the tower at St Edmundsbury Cathedral and the lighting scheme at Ripon Cathedral were effectively funded by single individuals.

#### 6. Difference between Repairs and Alterations

In justifying the introduction of standard rate VAT on alterations to listed buildings it has been asserted that there are “current difficulties in determining whether the work is an approved alteration (zero rated) or a work of maintenance or repair (standard rated)”. **This may be true for private houses but those of us working for churches, most importantly PCCs, have not encountered this difficulty.** The relatively small contribution made by the LPWGS recognises the huge contribution the Church of England makes to the maintenance of our built heritage.

Alterations are about making these buildings available for use by the wider community. The vast majority of such proposals come from congregations who have enthusiastically accepted the Prime Minister's challenge to embrace the Big Society. These new works are for re-ordering to make such socially useful activities possible - the first step almost always being the installation of lavatories and kitchens.

The Church of England has been encouraging our parishes to make our unique legacy of buildings in every corner of the land available for use by the wider community, in addition to worship. These projects are as necessary in areas of deprivation in inner cities where church buildings throw open their doors for a wide range of social projects, as it is in rural areas where the parish church is often the only public building left standing.

## 7. Extending the remit and size of the Listed Places of Worship Grants Scheme is an insecure and inadequate solution to mitigate these extra costs

The LPWGS was heavily curtailed last year and is already heavily oversubscribed. Since last year it has repaid only a proportion of the VAT reclaimed according to demand. There is now no certainty over the amount that will be repaid. In the third quarter successful claimants were only paid out 45% of the equivalent of the VAT they had paid on repairs to listed church buildings. (We have learnt from DCMS today, 19 April 2012, that claimants were paid at 55% of their claim in the last quarter).

Adding to the VAT burden by removing zero rating from alterations to listed church buildings will add uncertainty to financial planning for major expenditure. Because the percentage of VAT which can be reclaimed is calculated quarterly after the VAT has been paid some churches wait over three months before they know what grant they will receive and this uncertainty makes it impossible to plan giving campaigns etc as the final total that needs to be raised is uncertain. In the past 12 months it has become a much more burdensome and bureaucratic procedure for churches and the government.

We have calculated that the potential additional VAT burden on the Church of England as a result of charging standard rate VAT on **alterations** to listed buildings is up to **£20 million per annum** (the Church of England estimates that £100 million was spent on alterations to listed cathedral and church buildings in 2011).

The figures for actual and projected funding for the LPWGS for **repairs** to listed church buildings do not give confidence that this is a stable source of grant aid:

Year	LPWGS budget for repairs to listed churches
2010-11	£23m (and VAT was at 20% for only part of the year)
2011-12	Capped at £7m
2012-13	Capped at £12m

The government has indicated it intends to add £5 million to the LPWGS this year to cover the loss of zero rating to **alterations** to listed church buildings across the UK. The Prime Minister has assured the House of Commons that “we will be putting

money aside to make sure that churches undertaking repairs and alterations get the monies that they need.” But the history of shortfall and volatility of the existing LPWGS does not give us confidence.

The £5 million recently offered by the Chancellor to compensate for the removal of zero rating from alterations to listed church buildings would translate into less than £4m for the Church of England, less than 20% of the total additional cost that will be faced by Church of England congregations paying standard rate VAT on alterations. We also need clarification from the Government whether this £5 million is a one-off or an annual commitment.

As indicated in the Lichfield Cathedral example above, extending the Listed Places of Worship Grant Scheme will not mitigate the additional costs on development work to listed buildings in cathedral and church precincts. This can only be achieved by zero-rating VAT on alterations to listed buildings owned by churches in cathedral and church precincts.

## **8. Inadequate transitional relief**

The Church is concerned that if standard rate VAT is to be introduced with effect from 1 October, the transitional arrangements are woefully inadequate. For instance at Wakefield Cathedral where everything was in place on Budget Day, contracts were not signed and therefore under the transitional arrangements in the Finance Bill this major project will have to have all elements complete by 1 October 2012 if it is to avoid an additional unplanned VAT charge of £200,000.

Projects like Wakefield are extremely complicated and take time; the planning, the fundraising and undertaking high quality works.

We therefore urge the Government to make reasonable transitional arrangements, and propose an 18 month notice period i.e. for new arrangements to take effect from 1 October 2013.

## **9. In conclusion**

We know the government are pledged to listening. The consultation has already provoked strong reaction to these proposals which has been manifested in letters to Members of Parliament, the signatures on our e-petition (attracted 15,000 signatures by 19 April), concerns from all political parties raised in Parliament, and widespread critical press coverage. All this might suggest that this tidying up measure will cost more political capital than it is worth, particularly if it results in far less new work being done by churches, as it will bring in very little extra revenue. We hope common sense will prevail and that the government will take the simple step of **retaining zero-rated VAT for approved alterations to listed buildings owned by churches.**

We understand that under VATA 1994 the Treasury can make the change by order: see s 30(4). Under ss 97(3) and (4)(c)(iii) an order to remove protected buildings from Sched 8 would require an affirmative order of the Commons. There would be no proceedings in the Lords.

**Bishop of London**

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**Tony Baldry MP**

Second Church Estates Commissioner

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