

# European Landowners Organisation

## VAT APPLICABLE TO HISTORICAL MONUMENTS

### **SUMMARY**

The EU has a wealth of natural and cultural treasures. The Treaty of European Union and the Maastricht Treaty both have objectives of conservation and safeguard of the European cultural heritage. Private owners play an essential role as guardians and curators of a great part of the European natural and cultural heritage. The maintenance and restoration of these historical, cultural and environmental monuments is costly, and often has to be undertaken at a loss by private owners. Lowering the rate of VAT on such work would be an effective way of ensuring that more of this valuable work takes place. The ELO welcomes the recent proposal by the Commission for a Directive allowing a reduced VAT rate on certain labour-intensive services, which could include restoration work to historical, cultural and environmental monuments. However, because this proposed Directive is optional and limited in time, the ELO will continue to press for an amendment to Annex H of Directive 77/388 EEC listing the cases which may be the object of a reduced rate of VAT and which, for the time being, does not mention maintenance and restoration work on cultural heritage.

### **INTRODUCTION**

One reason why countries of the European Union are unique and fascinating compared to other parts of the world is because they have a great number of natural and cultural treasures of considerable value. Because these are so diverse, within a relatively small space, not only do they have an incredible intrinsic value but they are also a major tourist draw. Their importance is such that the EU, in collaboration with the Member States should use all possible means to preserve and maintain these treasures for generations to come.

### **An objective of the Maastricht Treaty: preserve and enhance the European cultural and natural heritage**

Article 128 of the Treaty of European Union set cultural objectives, and more specifically objectives of "conservation and safeguarding of cultural heritage of European significance".

It would seem that the scope of this article is relatively limited and that it only constitutes a declaration of intent. However it should not be considered as being fully ineffectual, and an opportunity has been given to the Council of Ministers and National Governments to take into account the importance of our European cultural heritage.

Moreover, article 130 R of the Maastricht Treaty, which deals with the protection of the environment, when read together with the important declaration (number 9) relating to the third part, title XVI of the Treaty instituting the European Community, sets specific objectives with regard to the environment.

This cultural heritage which includes buildings, i.e. castles, manors, big houses, typical farms, etc. as well as gardens, parks, or rural estates composed of woods, agricultural land, natural reserves, moors, etc., has through the ages been transmitted largely through the hands of private owners.

Private owners, who play an essential role as guardians and curators of a great part of the European cultural heritage for the common good, are fully aware of their responsibilities and of the need to transmit this heritage to future generations.

The value of this heritage is priceless, and from a financial point of view, apart from a few very rare exceptions, the return on investment is always negative. Each year the owners alone must bear this burden for the wider general interest, without any contribution from the taxpayer (except in the rare cases where subsidies are granted). The income which some owners can derive from their property only seldom covers the tremendous costs of maintaining and restoring this heritage, of which they are only the custodians during their lifetime.

### **Private management: the optimal way of reaching these objectives**

Private management of the European cultural heritage is by far the most effective method of conservation. Indeed, it has been shown that the acquisition by the State, followed by management by the State or by a State-subsidised organisation, results in costs at least three times greater than those which are borne by private owners.

That being said, private owners, many of whom are represented by the ELO, cannot continue to manage their property, which benefits the greater number and which, in fact, tends to meet the objectives set by the Maastricht Treaty, if some measure of state co-operation is not forthcoming to help them in their task.

A fiscal instrument is the best way to introduce this co-operation between the State and owners, and recognise the cultural, social and environmental mission which they fulfil.

### **Lowering the rate of VAT? An increased preservation of the European cultural heritage**

In most cases, maintenance and restoration work of historical monuments is subject to VAT and, depending on the Member State, this increases the financial burden of such work to a lesser or greater extent. In Belgium the rate of VAT is 6%, although in some cases it can be less through the use of subsidies (in the Walloon Region, in some very rare instances, VAT relating to maintenance and repair work of classified monuments can be subsidised up to 95% of the total amount). In France or Denmark however such work is charged at a rate of 20.6% and 25% respectively. Thus there are **great disparities** of treatment for similar situations. Some national fiscal regimes allow for these costs to be deducted from taxable revenues, but this leads to the amount of work being limited to the deductible amount, a limitation which is extremely penalising if incomes are low and if 25% of this budget must be set aside to pay for VAT. Faced with the limits in the means at their disposal, many owners of historic sites run the risk of not being able to face even the cost of minimum maintenance, to the extent that the site itself can be threatened with an unavoidable deterioration.

A reduction of VAT rates would enable one of the objectives defined in the treaty of Maastricht, that is the durable preservation and enhancement of the European cultural heritage, to be reached.

### **A lower rate of VAT? A beneficial measure for rural development.**

Another fundamental objective of the Maastricht treaty which could be reached through the use of a reduced rate of VAT is **the fight against unemployment**, and this essentially in a rural context.

Indeed, the budget which is at present set aside to pay the tax could be used to order each year a proportionately greater amount of work, leading to an increased demand for labour and materials. This reduction in the VAT rate will not have a very important impact at a macro-economic level. However the sums released would have a positive leverage effect on local employment and the local economy. Indeed this would procure employment possibilities for local rural labour, which has little opportunities to retrain, in a sector which is not really subject to technical change and where traditional work methods are usually prevalent. Thus it has been estimated in the United Kingdom

that a reduction by half of the current VAT rate (17.5%) would lead to the creation of 3,000 jobs in this specific sector of activity.

Moreover, this would be an efficient way of fighting against undeclared labour which constitutes an important loss of earning for the State (VAT, social contributions, tax on turnover, etc).

### **A lower rate of VAT: (a means of preserving the environment)**

By increasing the means available to private owners to maintain and restore their historical monuments, all the surrounding environment – composed of parks and gardens, agricultural land and woodland, marshes, etc. – would benefit from this enhancement. Not only would this have an impact on local tourism and therefore the economy and life in rural areas, but it would also protect the wider environment.

### **Conclusion**

There is thus a clear case for reducing the rate of VAT on maintenance and restoration work on heritage features, to ease the financial burden on private landowners of such work. This is why the ELO welcomes so favourably the proposal for a Directive allowing for a reduced VAT rate on certain labour-intensive services, and why it urges Member States to implement the Directive. This proposed directive – whose real objective is to exploit the potential for job creation in businesses offering local services, and to reintegrate some businesses which have drifted into the black economy – may contribute to the development of rural activity, and to the protection of the European cultural heritage while at the same time addressing some of the concerns expressed by the ELO in this paper.

However the ELO has some concerns as to the extent to which the Member States will implement this Directive, as well as concerns about its effectiveness, as the proposal is only for the reduced VAT rate to apply on an optional basis and for an experimental period (limited to 3 years). There are reasons to be concerned that, because of the leeway given to Member States to implement or not this Directive, and because of the constraints pertaining to its implementation (articles 1b) & d) of the proposed Directive) the Directive will not be implemented in some Member States. The ELO urges Member States to transpose it into domestic law as soon as possible and implement it.

Thus, although the ELO welcomes the contribution which the proposed Directive may make – in those countries which adopt it – to increasing maintenance/restoration work on heritage features, the uncertain prospects for the Directive mean that we will continue to argue in favour of longer-term legislative change. The ELO has long deplored the fact that Annex H of Directive 77/388/EEC, which provides an exhaustive list of the cases which may be the object of a reduced rate of VAT, does not include maintenance and restoration work of cultural heritage. We will continue to press that these works be added to Annex H, and that the concept of cultural heritage – which includes books for instance but not historic monuments – be revised, to include these quintessentially cultural goods.

**ELO Policy Group**

**May 1999**

**A0842389b**

**Any comments or queries on this submission should be addressed to the  
Secretary-General of the ELO at the address below**

EUROPEAN LANDOWNERS ORGANISATION - ORGANISATION EUROPEENNE DE LA PROPRIETE RURALE  
Galeries du Centre - Bloc II - 6 ème étage - 1000 Bruxelles  
Tél: (0)10 23 29 02 Fax: (0)10 23 29 09  
E-mail : [elo@skynet.be](mailto:elo@skynet.be)

<Picture>

---

**Job creation: Commission puts forward proposal for Directive allowing for reduced VAT rate on certain services**

---

DN: IP/99/117 Date: 1999-02-17

TXT: FR EN DE DA ES PT NL IT SW FI EL

PDF: FR EN DE DA ES PT NL IT SW FI EL

Word Processed: FR EN DE DA ES PT NL IT SW FI EL

IP/99/117

Brussels, 17 February 1999

**Job creation: Commission puts forward proposal for Directive allowing for reduced VAT rate on certain services**

*The Commission has presented a proposal for a Directive allowing those Member States which so wish to apply, for an experimental period, a reduced VAT rate on certain labour-intensive services (such as repair services on movable tangible property, renovation of buildings and domestic care services). This measure is designed to exploit the enormous potential for job creation in businesses offering local services. It could also help reintegrate some businesses which have drifted into the black economy. The initiative forms part of the "Vienna Strategy for Europe", which views job creation as the European Union's top priority.*

"Taxation can and must be geared more closely to job creation", commented Mario Monti, the Commissioner with special responsibility for taxation. "Work is already under way at European level: the package of measures to counter harmful tax competition is designed to rebalance the tax burden between labour and the other, more mobile factors, while the proposal for a common system of energy taxation will make it possible to compensate for the reduction in non-wage labour costs. Today we are proposing another experiment: the option for those Member States which so wish to apply a reduced VAT rate on certain labour-intensive services. This measure will be tried over a three-year period and a detailed assessment will be made of the results. If the experiment is deemed a success, the Commission will put forward appropriate proposals."

In the run-up to the European Council meeting on employment of 20 and 21 November 1997 (see IP/97/974), the Commission put to the Council the idea of authorising Member States to apply a reduced VAT rate on certain labour-intensive services supplied locally for an experimental period and on an optional basis. This idea did not meet with the unanimous approval of the Member States. However, following the conclusions of the Vienna European Council, the Commission has been requested to present a formal proposal for a Directive, and this it intends to do at the earliest opportunity.

**Three-year experiment**

The proposal for a Directive provides that the Council, acting unanimously on a proposal from the Commission, may authorise Member States to apply a reduced rate on certain labour-intensive services between 1 January 2000 and 31 December 2002.

However, as the follow-up to the 1997 Communication has demonstrated, it is particularly difficult to draw up in advance an exhaustive list of services to which this reduced rate could apply. The proposal for a Directive therefore lays down arrangements to help Member States identify the areas likely to benefit from a reduction

in VAT and sets out the measures that should be taken to ensure that no distortions appear which are incompatible with the single market.

### **The services concerned**

Under the proposal for a Directive, the services concerned must satisfy the following requirements:

- they must be labour-intensive;
- they must be provided direct to final consumers;
- they must be predominantly local and not be likely to create distortions of competition;
- the application of a reduced rate must at no time prejudice the smooth functioning of the single market.

The Member States wishing to introduce such a measure must provide the Commission with all relevant particulars before 1 September 1999, failing which they will not be authorised to take part in the experiment.

The services likely to satisfy these requirements and to offer the best potential for job creation are, for example, repair services on movable tangible property, renovation of buildings and domestic care services (care of the young, the elderly, etc.).

### **Follow-up**

Given that the measure envisaged will be optional, the Commission and the other Member States will have to be provided with systematic, detailed information by those Member States wishing to take part. In the event of major distortions of competition coming to light which could undermine the smooth functioning of the single market, the Council, acting by qualified majority on a proposal from the Commission, may take appropriate measures.

### **Assessment**

The Member States which apply this measure must draw up a detailed report before 1 October 2002 containing an assessment of its effectiveness in terms of job creation and efficiency. On the basis of these reports, the Commission will make an overall assessment and will put forward any proposals deemed necessary.