

Cut the VAT Coalition
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The Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Parade
London SW1A 2HQ

7th June 2010

Dear Chancellor

Re: Emergency Budget – 22nd June 2010

As you prepare for your first Budget on 22nd June the 'Cut the VAT' Coalition, which is made up of 23 organisations, wishes to draw your attention to the need to develop a more sophisticated, targeted approach to the issue of VAT and its application to the repair and maintenance of buildings. The members of the Coalition all have an interest in Britain's built environment and, as you may already be aware, have been campaigning for a targeted reduction in the rate of VAT, applied to the labour element of repairs, maintenance and improvement work, to 5 per cent.

The Cut the VAT Coalition is fully aware of the urgent need for the Government to tackle the budget deficit but in doing so we urge you to reflect and consider that any possible increase in the headline rate of VAT is tempered by selected cuts. Independent research commissioned by the Cut the VAT Coalition and conducted by Experian in February this year examined the effects of selected reductions in the rate of VAT on the labour element of housing repair, maintenance and improvement. The research revealed that a reduction in the rate of VAT on the labour element of domestic repair, maintenance and improvement work from the current rate of 17.5 per cent to 5 per cent would create a net loss to the Government of between £102 million and £508 million once the returning benefits of reduced social security claims, increased income tax, national insurance and employers national insurance contributions were taken into account.

However, the total stimulus effect of this £102-508 million to the UK economy as a whole would be in the region of £1.4 billion in 2010 alone once the £373 million in additional construction outputs and its £1.06 billion multiplier effect are combined. In addition, cutting the rate of VAT from 17.5 per cent to 5 per cent would, the report revealed, have positive economic benefits in terms of job

creation. Such a cut would create up to 24,200 extra full-time construction jobs in this year alone rising to 34,500 by the end of 2019. The knock on effect of this extra job creation could, the report states, create an additional 31,000 jobs in 2010 in the wider economy as demand for related materials, products and services increased and construction pay packets are spent on goods and services in other sectors. By the end of 2019 the report predicts a total of 81,500 extra jobs could be created.


A selected cut in VAT would also do much to help tackle the current housing problem by stimulating housing supply through renovation rather than putting pressure on green field sites. Given that our existing housing stock contributes 27 per cent of the UK's total carbon emissions urgent action is needed now to make them more energy efficient if we are to fulfil the UK's legal obligation to cut carbon emissions by 80 per cent by 2050. There has been an increasing realisation that new house building, even in a good year, only equates to around 0.75 per cent of the total housing stock. On this basis even if all new building was a straight replacement for the existing stock, it would take over 130 years to completely replace it with new carbon zero homes. Realistically, the task would probably take nearer 250 years which means that its contribution to carbon emission reduction by 2050 can only be very limited.

All this suggests that the Government would be better advised to focus its attention on retrofitting the existing housing stock and why the impact of VAT is critical. In particular, we urge you to address the fact that the current VAT treatment of energy efficiency and micro generation is inconsistent with £4.5 billion of energy efficiency works attracting the full rate of VAT whilst some less efficient measures attract the reduced rate of 5 per cent. This makes little sense and a flat rate of 5 per cent on all energy efficiency measures would produce a more coherent and more readily implementable treatment of energy retrofitting.

We hope you will reflect seriously on the arguments that we have presented as the Budget is a unique opportunity for the new Government to show its commitment to supporting a dynamic, growing economy; and also to creating a greener, more energy efficient country that is consistent with the UK's ambition to become a low carbon economy. Cutting the rate of VAT to secure these twinned objectives should in, our opinion, be at the forefront of the new Government's agenda.

We would be happy to discuss our proposals with you in more detail and we look forward to your response.

Yours sincerely



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Director-General, Federation of Master Builders



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Chief Executive, Royal Institution of Chartered Surveyors



MARTIN CLARKE

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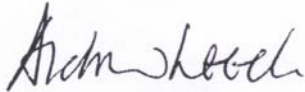
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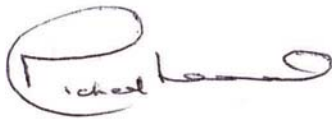
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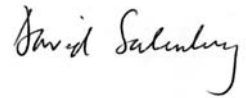
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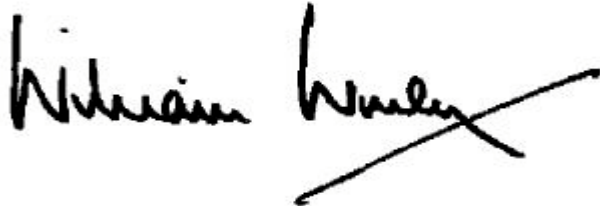
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