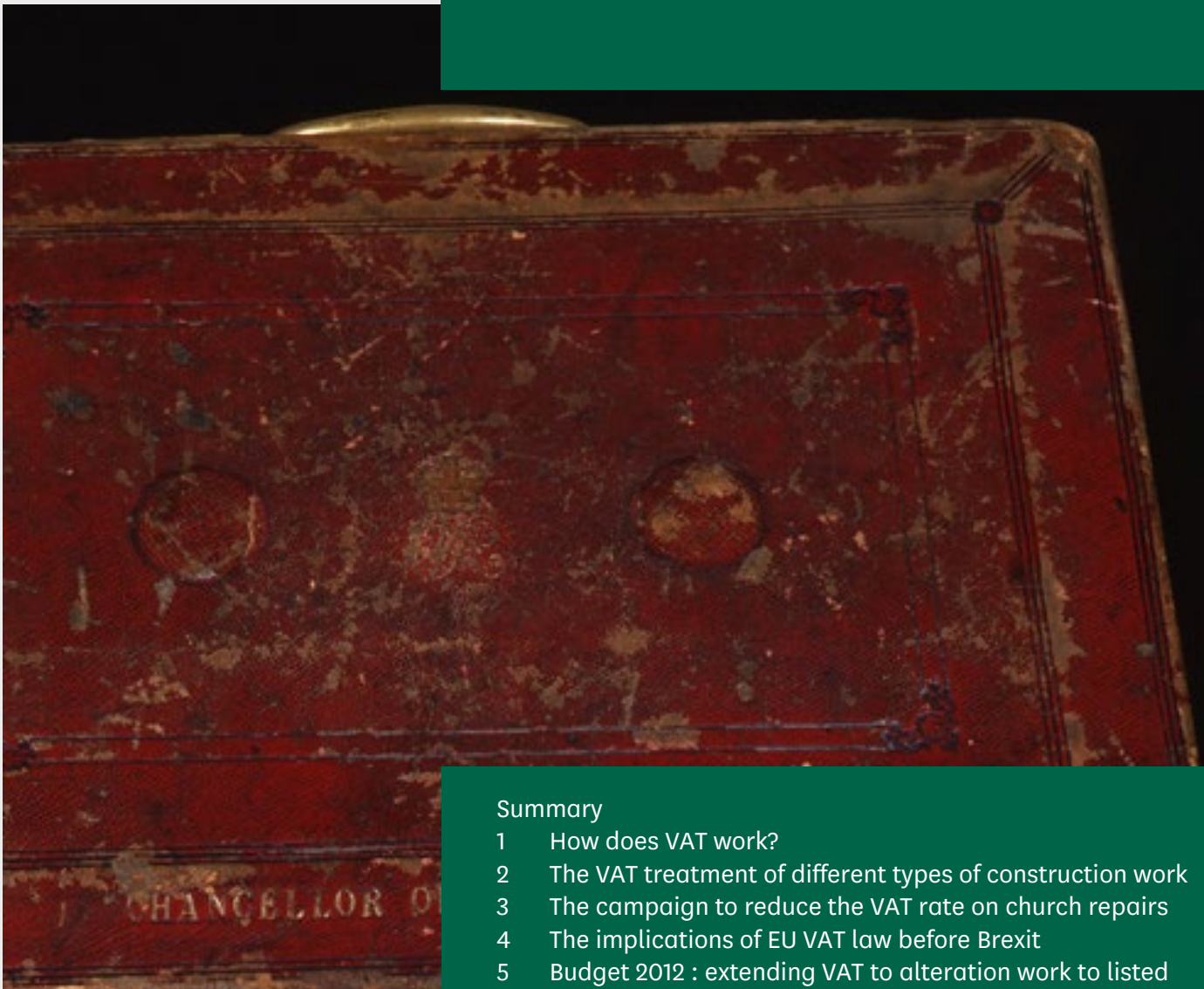


Research Briefing

22 January 2025

By Antony Seely

VAT and churches



Summary

- 1 How does VAT work?
- 2 The VAT treatment of different types of construction work
- 3 The campaign to reduce the VAT rate on church repairs
- 4 The implications of EU VAT law before Brexit
- 5 Budget 2012 : extending VAT to alteration work to listed buildings
- 6 The Listed Places of Worship Grant Scheme

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Summary

How does VAT apply to construction work?

The construction of new buildings is charged a zero rate of VAT, provided the supply in question is for a social purpose. In effect, this means that only the construction of new houses, dwellings and buildings with a charitable purpose is zero-rated.

Generally, VAT is charged at the standard rate - currently 20% - on all repair, renovation and maintenance work whatever the status of the building concerned. This includes repair work carried out on churches.

HMRC publish [detailed guidance](#) on the way construction work is charged VAT.

The campaign for VAT relief on church repairs

There has been a long-running campaign for the introduction of a zero rate of VAT on repair work carried out on historic church buildings.

In the past ministers have ruled this out [on a number of grounds](#):

- VAT is designed to be as broadly based as possible, in the interests of fairness, simplicity and legal certainty. Introducing a new reduced rate on repair work on churches could lead to the introduction of further reduced rates on other supplies, eroding the base of the tax at considerable cost to the public purse.
- Rather than making VAT more complex, a better way to support the maintenance of historic churches is to encourage charitable donations, and provide direct grants from bodies such as English Heritage.

Before the UK left the EU, an additional obstacle to cutting the rate of VAT on this specific supply is that it would have been [contrary to EU-wide rules on setting VAT rates](#).

Alteration work to listed buildings, included historic churches, used to be charged VAT at the zero rate. In the 2012 Budget the Coalition government proposed a number of changes to the scope of VAT from 1 October 2012, including the [withdrawal of zero-rating for alterations to listed buildings](#). In response to concerns about the impact of this change, the government announced that transitional arrangements for alteration work that was

already in progress by the time of the Budget would be made more generous. These transitional arrangements were for three years only, so ended in [September 2015](#).

Since this change Members have raised the case for a zero or reduced rate of VAT on repairs and alterations to listed church buildings on a [number of occasions](#), but with no indication of any change in the government's position. In answer to [a PQ on the case for zero-rating in January 2025](#) the Financial Secretary Lord Livermore noted that "evidence suggests that businesses only partially pass on any savings from lower VAT rates", going on to make the point that "in some cases, reliefs do not represent good value for money, as there is no guarantee that savings will be passed on to consumers."

What is the Listed Places of Worship Scheme?

In 2001 the Labour government introduced a new grant scheme to mitigate the VAT costs for the repair of historic church buildings, and other listed buildings used as places of worship: the [Listed Places of Worship Grant Scheme](#). In 2012 the scope of the scheme was widened to mitigate the impact that the phased removal of the zero rate on alteration work to listed buildings would have on those listed buildings that were places of worship. The scheme receives around [7,000 claims a year](#). To date it has paid grants to churches, synagogues, mosques and temples [worth over £350 million in total](#).

What plans does the government have for the Listed Places of Worship Scheme?

In October 2022 the Conservative government stated that it would provide funding for the scheme [at least until 31 March 2025](#). Subsequently ministers in the Conservative government [reiterated its commitment to the scheme](#), but gave no indication that they saw a case for introducing any new VAT relief.

Following the 2024 general election, the current government made no mention of the future of the scheme in its [2024 Autumn Budget](#). [In answer to a PQ the month following the Budget](#), Chris Bryant, Minister of State at the Department for Culture, Media and Sport said "Departmental settlements have been set following the Budget announcement on October 30. Individual programmes will now be assessed during the departmental Business Planning process." Subsequently the minister gave a written statement [on 22 January 2025](#) confirming that the scheme would be extended "until 31 March 2026, the end of this Spending Review period."

1 How does VAT work?

VAT is charged on the supply of all goods and services made in the course of a business by a taxable person, unless they are specifically exempt. All businesses must register for VAT if their annual turnover of taxable goods and/or services is above a given threshold, currently set at [£90,000](#).

VAT is charged on the additional value of each transaction. It is collected at each stage of production and distribution. A business pays VAT on its purchases (known as input tax), and charges VAT on its sales (known as output tax). It will settle with HM Revenue & Customs (HMRC) for the difference between the two. In the end the cost of the tax is borne by the final consumer.¹

VAT is charged either at the standard rate – currently 20% – or the zero rate, though there is limited use of a reduced rate of 5%.²

The exemption of goods and services from VAT should be distinguished from their being charged a zero rate.

Although a business will not charge a customer VAT on their supply of zero-rated goods or services, the supply will still count as part of a business' taxable turnover. VAT charged on inputs relating to zero-rated activities can be reclaimed, unlike the VAT incurred by a business in the course of an exempt activity. In the latter case, a business making exempt supplies has to absorb the VAT charged to it by its suppliers. This is often called 'irrecoverable' VAT.

From the perspective of the final consumer, both zero-rated supplies and exempt supplies will be VAT-free.

VAT law is consolidated in the [VAT Act \(VATA\) 1994, as amended](#).

[Schedule 9 to the Act](#) lists those goods and services which are exempt from VAT. Categories of exempt supplies include land, insurance, finance, education, health and welfare.

[Schedule 8 to the Act](#) lists those goods and services which are charged a zero rate. Categories of zero-rated supplies include food, construction of new dwellings, domestic and international passenger transport, drugs and

¹ HMRC's VAT Guide ([VAT Notice 700, September 2023](#)) provides an overview of the basic rules of VAT (see [section 4](#)).

² Around half of household expenditure subject to the 20% standard rate, while around 2.5 per cent of expenditure is taxed at the reduced 5% rate (Office for Budget Responsibility, [Tax by tax: VAT](#), updated 17 April 2024).

medicines on prescription, and certain supplies of goods and services charities.

HMRC publishes detailed guidance on the rate of VAT that is charged on different goods and services.³

³ HMRC, [VAT rates on different goods and services](#), updated 11 July 2022

2 The VAT treatment of different types of construction work

The construction of new buildings is charged a zero rate of VAT, provided the supply in question is for a social purpose. In effect, this means that only the construction of new houses, dwellings and buildings with a charitable purpose is zero-rated. Generally VAT is charged at the standard rate - currently 20% - on all repair, renovation and maintenance work whatever the status of the building concerned, although a reduced rate of 5% is charged on the conversion or renovation of some types of residential building.

VAT law is consolidated in the [Value Added Tax Act \(VATA\) 1994](#), as amended. Schedule 8 to the Act specifies those goods and services which are charged the zero rate. [Group 5](#) to schedule 8 covers the construction of buildings. Item 2 to group 5 specifies that the construction of “a building designed as a dwelling or a number of dwellings or intended for use solely for a relevant residential purpose or a relevant charitable purpose” is zero-rated.

Schedule 7A to VATA 1994 specifies goods and services charge the 5% reduced rate. [Group 6](#) and [group 7](#) to schedule 7A cover residential conversions, and residential renovations and alterations, respectively.

In 2001 the Labour government introduced some changes to the VAT treatment of construction work to encourage urban regeneration. First, a new reduced rate of 5% was introduced for conversion or renovation work on some types of residential building.⁴ Second, the coverage of the existing zero rate on the construction of new buildings was extended to the sale of a renovated house empty for 10 years or more.⁵

Notably these changes fell short of a new single VAT rate on all new build, repair and renovation work. Some commentators have argued that equalising the VAT rate on these types of work could be an effective tool to encourage urban regeneration as it would remove an important disincentive for developers to refurbish empty properties.⁶

HMRC publish detailed guidance on the VAT treatment of construction work.⁷

⁴ Statutory provision for this measure was made by [section 97 of the Finance Act 2001](#). The range of eligible conversions and renovations was extended from 1 June 2002 by secondary legislation ([SI 2002/1100](#)).

⁵ Statutory provision for this measure was made by secondary legislation ([SI 2001/2305](#)).

⁶ For further details see, Commons Library research briefing CBP587 [VAT on construction](#). The briefing was last updated on 11 October 2019.

⁷ see HMRC, [VAT Notice 708: Buildings and construction](#), updated 24 January 2024; and, HMRC’s online [VAT Construction Manual](#).

3 The campaign to reduce the VAT rate on church repairs

The Church of England's General Synod have argued for many years that the rate of VAT on church repairs and maintenance should be cut.⁸ In January 1998 it published a report by the Council for the Care of Churches on this issue. The Council argued that the VAT treatment of works to church buildings should be reformed for a number of reasons:

- Charging VAT on repairs failed to recognise the way in which Church and State work in partnership to manage these historic buildings.
- VAT on repair work encouraged unnecessary alterations and discourages the good conservation and ecological practice of respecting existing fabric, rather than replacing it wholesale. At the time alteration work to listed buildings was zero-rated, although this zero rate was withdrawn in 2012.
- The distinction that VAT law drew between repairs and maintenance on the one hand, and alterations on the other, was artificial and complex to administer.
- It was wasteful to recover VAT on repair work as the largest portion of the grant aid available for church repairs came from public funds.
- Charging VAT was a disincentive to potential donors, since people were reluctant to give money which they know will end up being paid as tax.⁹

The campaign was supported by the [Church Commissioners](#) and in the press.¹⁰ In November 2000 the Churches Main Committee – a Judaeo-Christian ecumenical body – published a study it had commissioned that suggested that the total amount of VAT paid by all churches for repair and maintenance each year was £38 million (£29 million in relation to building repair work, and £8.9 million to routine maintenance).¹¹ Subsequently the work was cited in reply to a PQ asking the government for an estimate of the potential cost to cutting VAT on church repairs.¹²

⁸ “Carey asks for help on church VAT bills”, Times, 11 February 1998

⁹ Council for the Care of Churches, An intolerable burden: the case for VAT reform, January 1998

¹⁰ Stuart Bell, then Second Church Estates Commissioner, set out the Commissioners' position in answer to PQs (see, HC Deb 6 November 2000 c18; HC Deb 3 May 2000 c101W). At the time the Times newspaper supported the campaign: “Editorial: Treasure in heaven: the Church needs a tax break”, 5 April 1999

¹¹ Churches Main Committee, The impact of VAT on church properties, November 2000.

¹² HC Deb 25 January 2001 cc706-7W

At the time the Conservative government consistently opposed the introduction of a lower rate of VAT on church repairs.

When the issue was debated in the Lords in June 1995 Lord Mackay of Ardbrecknish, then Minister of State for Social Security, explained the reasons behind the government's position on the issue.¹³

First, it was the government's intention that VAT be as broadly based as possible, in the interests of fairness, simplicity and legal certainty. Introducing one new reduced rate would simply encourage those lobbying for other reduced rates, eroding government revenues from VAT and the base of the tax itself. Indeed many other organisations had similar responsibilities to repair heritage property as the Church, and would want similar treatment if any new concession was made.

Second, the right way to provide help for the upkeep of historic church buildings was not by making VAT more complex, but by encouraging the donation of funds by individuals (for which there existed tax reliefs), and by grant from bodies such as English Heritage.

A further point is that VAT reliefs are not means-tested at all, so there is an argument for targeting them quite narrowly.

HMRC publish estimates of the cost of various tax reliefs, including the cost of various zero and reduced VAT rates.¹⁴ It is estimated that the annual cost of zero-rating the construction and sale of new dwellings is around £16 billion.¹⁵ By comparison, total annual receipts from VAT are around £169 billion.¹⁶

¹³ [HL Deb 21 June 1995 cc268-270](#)

¹⁴ HMRC, [Tax relief statistics](#), updated 5 December 2024. In the case of zero and reduced VAT rates, the figures are included in HMRC's statistics on [non-structural tax reliefs](#).

¹⁵ HMRC, [Non-structural tax relief statistics](#), December 2024 [para 5.28](#)

¹⁶ Figure for 2023/24. Office for Budget Responsibility, [Economic and Fiscal Outlook CP 1169 \(PDF\)](#) October 2024 [p172 \(Table A5\)](#)

4

The implications of EU VAT law before Brexit

Prior to the UK's departure from the EU in 2021, a further objection ministers raised to cutting the rate of VAT on church repairs was that would be contrary to European VAT law.¹⁷

VAT law in all Member States is based on EU VAT law, and this limits Member States' discretion in amending their national VAT structure and setting VAT rates on individual goods and services.¹⁸

At the time the UK was a member of the EU, Member States' discretion in setting VAT rates was subject to an agreement on harmonising the rates of VAT reached in October 1992. This stipulated that no Member State could introduce any new zero rates of VAT, although states were allowed to continue to charge any lower rates, including zero rates, that were in place on 1 January 1991.¹⁹ In addition Member States had the discretion to charge a reduced rate of VAT - between 5% and 15% - on a specified list of goods and services. One of the items of this list was the "provision, construction, renovation and alteration of housing, as part of a social policy."²⁰ As a consequence, Member States were able to set a reduced rate of VAT on repair work for social housing, though not to historic buildings or churches.

The European Council has been required to regularly review the list of permitted reduced VAT rates, based on a report by the Commission. In November 1997 the Commission found that the current VAT structure posed no serious problems for the satisfactory operation of the Single Market, and there was no justification for introducing major modifications in these rules. In addition, the Commission argued that reduced VAT rates should be used only for particular social reasons.²¹ In an explanatory memorandum, the then Financial Secretary, Dawn Primarolo (Labour) stated that, "in general, the UK believes that the widespread use of reduced VAT rates is likely to result in unnecessary complication of the tax, to the detriment of both business and

¹⁷ [HL Deb 29 October 1996 c13WA](#); [HC Deb 15 March 1999 c518W](#); [PQ190861, 18 November 2018](#). Commons Library research briefing CBP7960, [Brexit timeline: events leading to the UK's exit from the European Union](#) provides a narrative of events leading up to the UK's departure.

¹⁸ For further details see, Commons Library research briefing CBP2683, [VAT : European law on VAT rates](#). The briefing was last updated on 17 January 2019.

¹⁹ Directive 92/77/EEC of 19 October 1992. The directive came into effect on 1 January 1993, and was subsequently incorporated in the principal VAT directive: [Council Directive 2006/112/EEC](#). Following an agreement in April 2022 ([Directive 2022/542 of 5 April 2022](#)) Member States now have much more discretion in introducing reduced and zero rates of VAT. For details see, European Commission, [VAT Rates](#), retrieved 17 January 2025.

²⁰ Initially this was set out in Item 10 to Annex III of Council Directive 2006/112/EEC.

²¹ COM(97)559 Final 20 November 1997

the integrity of the tax itself. The UK does, however, accept that there are some circumstances where a reduced VAT rate may be a useful tool to address specific problems - the recent announcement on the VAT treatment on energy-saving materials is a case in point.”²²

In October 1999 the European Council agreed to an amendment to these rules to give Member States the option to apply a reduced VAT rate to certain ‘labour-intensive services’, as a means to reduce unemployment. This list included the “renovation and repairing of private dwellings, excluding materials which form a significant part of the value of the supply.”²³ A number of countries took the opportunity to introduce a reduced VAT rate on this supply, though not the UK.²⁴ However, this provision would not have allowed for a reduced VAT rate on church repairs.²⁵

In June 2003 the Commission published a report on the effectiveness of the scheme for reduced rates on ‘labour-intensive’ services, concluding that “it was not possible to find solid evidence of such reductions ... boosting job creation.”²⁶ The next month the Commission published a general review of reduced rates, arguing the range of reduced rates should be harmonised, and that the automatic right of Member States to maintain their transitional derogations should be withdrawn, so as to improve the functioning of the internal market.²⁷ In a memorandum on these proposals the Commission set out its position on the treatment of housing and construction work:

What changes are proposed in the housing sector?

In order to rationalise this complex and chaotic situation and improve the functioning of the internal market, it is proposed to ... allow reduced rates to be applied to the following operations: the supply, construction, renovation, alteration, repair and maintenance of housing; the rental of housing where a Member State does not opt for exemption. These changes not only substantially rationalise the reduced rates on housing but are a significant extension of Member States’ option to apply reduced rates in the housing sector.

Under various specific derogations, several Member States are currently exempt from the requirement to apply the reduced rate solely to housing under social policy and apply it to certain operations in the private housing sector as well. There is no definition of social housing at Community level and it has therefore been defined variously in the legislation of different Member States. At the present time, housing is subject to the reduced rate under various measures in ten Member States. The change will also incorporate two categories currently covered by the Directive authorising Member States to

²² HM Customs & Excise explanatory memorandum, 17 December 1997. The Minister was referring to the 5% rate on energy-saving materials supplied under the Home Energy Efficiency Scheme, introduced in 1 July 1998.

²³ under [Directive 1999/85/EC of 22 October 1999](#)

²⁴ Belgium, France, Italy, Netherlands, and Portugal (HM Customs & Excise explanatory memorandum, 25 January 2000).

²⁵ HC Deb 7 February 2000 c75W

²⁶ COM (2003) 309 final, 2 June 2003 p25

²⁷ COM (2003) 397 final, 23 July 2003. See also, European Commission press notice IP/03/1024, 16 July 2003

apply a reduced rate of VAT to certain labour-intensive services (renovation and repair of private dwellings, and window cleaning and cleaning in private households) [...]

Why isn't the Commission proposing to allow a reduced rate for renovation work on historical monuments?

Currently there is only provision for a reduced rate in relation to housing: nevertheless, one Member State (UK) applies a zero rate to certain types of work on historical buildings. However, the standard rate is applicable in the other Member States. It would therefore be appropriate to put an end to this derogation and make the standard rate the norm. There is in fact no need for a reduced rate of VAT in this area: Member States have much more appropriate means at their disposal to finance work on historical buildings (direct subsidies or full cover for work carried out, grants to owners of listed buildings not used as housing, etc.).²⁸

From the UK's perspective the Commission's proposals were controversial as they did not allow for certain zero rates to be maintained, including the zero rate on children's clothing, something the government regarded as unacceptable.²⁹ Other Member States expressed strong reservations and a final agreement was not reached until February 2006: a minimalist package that allowed for existing reduced and zero rates to continue, and a technical change to allow an existing provision for a reduced rate on domestic supplies of fuel and power to cover supplies of district heating.³⁰

In July 2008 the Commission proposed some minor additions to the list of goods and services that could be charged a reduced rate. Notably the Commission suggested that States should be allowed to charge a reduced rate on the supply of all housing – not just housing linked with a social policy – and on the “renovation, repair, alteration, maintenance and cleaning of housing and of places of worship and of cultural heritage and historical monuments recognised by the Member State concerned.”³¹ Reaching agreement proved difficult once more. In March 2009 European Finance Ministers finally agreed to make two small additions to this list (restaurant services and books on all physical means of support), and to put the scheme for ‘labour intensive services’ on a permanent footing. No change was made to the scope of these provisions as they applied to VAT and construction, such as extending their scope to include the repair of churches.³²

In December 2010 the Coalition government stated that it saw “no realistic prospect” of an EU-wide agreement to allow for historic church repairs to be zero rated.³³

²⁸ European Commission memorandum MEMO/03/149, 16 July 2003

²⁹ HM Customs & Excise, Explanatory memorandum on COM(2003) 397 final, 29 August 2003 paras 16-17

³⁰ Directive 2006/18/EC of 14 February 2006

³¹ COM(2008) 428 final; European Commission press notice IP/08/1109, 7 July 2008

³² As noted in answer to a PQ at the time: HC Deb 19 March 2009 c1048. These changes took effect from 1 June 2009, under [Directive 2009/47/EC of 5 May 2009](#).

³³ HC Deb 1 December 2010 c845W

5 Budget 2012 : extending VAT to alteration work to listed buildings

5.1 Coverage of the zero rate on alteration work to listed buildings

Although repair work to historic churches and other listed buildings has never been zero-rated, alteration work to listed buildings used to be. As noted, schedule 8 to VAT 1994 sets out the goods and services that are zero-rated.

[Group 6 to schedule 8](#) made provision for zero-rating certain types of construction work carried out on “protected buildings”. Broadly speaking, these were dwellings or buildings with a charitable purpose that were either listed buildings or scheduled monuments. Zero-rating applied to work that was an ‘alteration’ of a protected building. Any works of “repair or maintenance” were specifically excluded (under note 6 to group 6). In most cases this meant work for which listed building consent was needed, because the work would affect the building’s character as a building of special architectural or historic interest.

HMRC’s guidance on the coverage of the zero rate explains that under the old rules, “works of repair or maintenance are those tasks designed to minimise, for as long as possible, the need for, and future scale and cost of, further attention to the fabric of the building”:

Changes to the physical features of the building are not zero-rated alterations if, in the exercise of proper repair and maintenance of the building, they are either:

- trifling or insignificant, or
- dictated by the nature and use of modern building materials.

Similarly, if the amount of work or cost is significant, that does not make the work a zero-rated alteration if the inherent character of the work is repair and maintenance.³⁴

Under the system of ‘ecclesiastical exemption’, many listed places of worship are not subject to listed building consent. However those churches covered by

³⁴ HMRC, [Buildings and construction: VAT Notice 708](#), January 2024 paras 9.4.1

this scheme operate their own controls that follow a government code of practice, and alteration work on these buildings qualified for zero-rating.³⁵

5.2 The Coalition government's 2012 Budget

In his Budget statement on 21 March 2012 the then Chancellor George Osborne announced proposals to address a number of “loopholes and anomalies” in VAT:

We will also address some of the loopholes and anomalies in our VAT system. For example, at present soft drinks and sports drinks are charged VAT, but sports nutrition drinks are not. Hot takeaway food on the high streets has been charged VAT for more than 20 years, but some new hot takeaway products in supermarkets are not. Some companies are using the VAT rules that exempt the rental of land to avoid the tax that their competitors are paying. We are publishing our plans today to remove loopholes and anomalies, but we will keep the broad exemptions on food, children's clothes, printed books and newspapers.³⁶

Taken together it was estimated these changes would raise £270 million by 2013/14.³⁷

One change which the Chancellor did not mention in his speech was to remove the zero rate for approved alteration work to listed buildings. Details were set out in a tax information and impact note published alongside the Budget. This stated that removing the zero rate would raise £35 million by 2012/13, rising to £85 million in 2013/14. The note gave some context to the government's decision:

Some alterations restore or enhance the unique character of a building or prolong its active life, but most work covered by the relief is extension work which is unnecessary for heritage purposes. Alteration work on other types of building is standard-rated so owners of listed buildings receive a tax advantage over owners of other types of building [...]

The measure will result in i) all building materials and construction services supplied in the course of an approved alteration to a protected becoming subject to VAT at the standard rate and ii) a narrowing of the circumstances in which the first sale or long lease by a developer of a substantially reconstructed protected building can be zero-rated, so that only buildings reconstructed from a shell continue to benefit from the zero rate [...]

Removing the zero rate removes a perverse incentive to change listed buildings rather than repair them and ensures that all alteration works receive the same tax treatment. The change makes the VAT rules simpler for businesses to

³⁵ As above para 9.5.4

³⁶ HC Deb 21 March 2012 c801

³⁷ Budget 2012, HC1853, March 2012 p50 (Table 2.1 – items 27, 28)

understand and for HMRC to administer and reduces the scope for error and non-compliance.³⁸

It also provided some details on the anticipated impact of removing the zero rate:

There are an estimated 350,000 listed dwellings in the UK. It is estimated that around 10,000 individuals and households may be affected each year by the measure, with the additional costs from the VAT change varying according to the extent of work undertaken [...] There are an estimated 35,000 to 50,000 listed buildings owned by businesses or charities used for a residential or charitable purpose. It is estimated that around 1,000 businesses and charities may be affected each year.³⁹

In the case of listed places of worship, HMRC stated that “our evidence suggests that places of worship form only a small minority of the total number of listed properties in the UK. These will be predominantly used by Christian denominations.”⁴⁰ In 2001 the Labour government had introduced the Listed Places of Worship Grant Scheme, to provide grants to cover the VAT costs associated with repair and maintenance work on historic churches.⁴¹ The Coalition government announced that the scheme would be extended to cover approved alterations to mitigate the impact of this Budget measure.⁴²

The Coalition Government also proposed that approved alterations which were under way would be entitled to transitional relief. Anti-avoidance legislation would be included in the forthcoming Finance Bill to prevent developers obtaining zero-rating for work contracted on or after Budget day, but performed on or after 1 October 2012.⁴³ Details were given in a consultation document published alongside the Budget. In the case of this type of construction work, HMRC asked for views on both the impact of removing the zero-rate, and on its proposals for transitional relief.⁴⁴ The deadline for responses was 18 May 2012.⁴⁵

³⁸ HMRC, [VAT: approved alterations to listed buildings](#), March 2012

³⁹ HMRC, [VAT: approved alterations to listed buildings](#), March 2012

⁴⁰ [As above](#)

⁴¹ HL Deb 4 December 2001 c129WA

⁴² HMRC, [VAT: approved alterations to listed buildings](#), March 2012

⁴³ HC Deb 21 March 2012 c57WS. These provisions are now contained in section 195 and schedules 26-7 of the [Finance Act 2012](#).

⁴⁴ HMRC, [VAT: Addressing borderline anomalies](#), March 2012 pp23-28

⁴⁵ Initially this deadline was 4 May 2012, but was extended to 18 May 2012 “in recognition of the wide interest in these proposals” (HC Deb 30 April 2012 c1212W). The then Exchequer Secretary David Gauke announced this change to the House on 18 April (HC Deb cc441-2).

5.3

The government's response to reactions to the Budget announcement

The government's proposals to address these 'loopholes and anomalies' proved very contentious.⁴⁶

Focusing on the proposed withdrawal of the zero rate on alteration work, concerns about the potential impact on churches were raised by clergy, charities and by MPs.⁴⁷ The issue was raised during the second reading debate on the Finance Bill when the then Chief Secretary to the Treasury, Danny Alexander, said, "on churches ... we will increase the listed places of worship scheme by £5 million a year, precisely to enable churches that have alterations to benefit from the scheme and not to be adversely affected."⁴⁸ The Church Commissioners made a submission to the Treasury, raising concerns that this would be "an insecure and inadequate solution" and that the potential VAT cost faced by the Church of England could be as much as £20 million a year.⁴⁹

Speaking for the government in a short Lords debate a few days later, Lord Sassoon indicated that additional funding could be provided if there was evidence that the financial impact was greater than £5 million.⁵⁰ Following the Queen's Speech and the start of the new session, the then Chancellor, George Osborne, announced that the government would provide an extra £30m a year for the scheme – during a debate on the Address on 17 May 2012:

The Government will provide £30 million of grant to the listed places of worship scheme. That will be 100% compensation, exactly as we promised in the Budget, for the additional cost borne by churches for alterations. It should also go a long way towards helping the situation on repairs and maintenance, where in recent years they have not been able to get 100% compensation. We think it will deliver 100% coverage for repairs and maintenance.⁵¹

The Chancellor's announcement was widely welcomed by campaigners.⁵² Subsequently the government announced certain other changes in its approach to applying VAT consistently to holiday caravans, and to hot

⁴⁶ For more details see Commons Library research briefing CBP6298, [VAT: Budget 2012 changes to loopholes and anomalies](#), 3 September 2013.

⁴⁷ "VAT bills will put cathedrals in jeopardy", Sunday Times, 15 April 2012; "Ditty by dean's wife joins chorus of disapproval", Financial Times, 17 April 2012. See also, [Early Day Motion 2954 of 2010-12](#), 16 April 2012; and, [Early Day Motion 2979 2010-12](#), 18 April 2012.

⁴⁸ HC Deb 16 April 2012 c30

⁴⁹ The Second Church Estates Commissioner (Tony Baldry MP) mentioned this in the House of 26 April (HC Deb 1093), and the submission itself was deposited in the Commons Library ([DEP2012-0703_26 April 2012](#)).

⁵⁰ HL Deb 24 April 2012 c1682. See also, HC Deb 26 April 2012 c1071W

⁵¹ HC Deb 17 May 2012 c731

⁵² "Chancellor puts £30m in the collection plate for VAT bills", Times, 18 May 2012; [EDM 110 of 2012-13](#), 22 May 2012

takeaway food, which were the two other elements of this reform package that proved most contentious.⁵³

On 28 June 2012 the then Exchequer Secretary David Gauke announced the outcome of HMRC's consultation.⁵⁴ Zero-rating on approved alterations had gathered more responses than any other of these measures: 818 out of a total of 1,493. That noted, a proportion of these were enquiries about the coverage of zero-rating:

A large number of the responses (135) were in fact enquiries, either about the VAT treatment of works under the current VAT rules, or about how specific projects would be affected by the changes. Most of these were from private individuals either altering or repairing domestic properties. In some cases the enquiries demonstrated a poor understanding of the current rules and suggested that some repair work is incorrectly being treated as zero-rated.⁵⁵

Many respondents commented on the proposals for a transitional period to allow zero-rating to extend until 20 March 2013 for certain types of project:

The draft legislation as proposed in the consultation document included transitional relief for i) works of approved alterations where a written contract was in place before Budget day and ii) the first grant of a substantially reconstructed protected building where three fifths of the reconstruction is an approved alteration and where, before Budget day, either 10% of the reconstruction had been completed or a written contract had been put in place. The proposed transitional period in all cases would last until 20 March 2013.

A large number of respondents commented on the transitional arrangements. Almost all of these argued that the transitional arrangements were insufficient to provide relief for all projects already underway at the time of the Budget announcement. Some responses indicated that certain projects had been temporarily halted and others may not be completed due to the unanticipated funding shortfall caused by the VAT increase.

Many responses felt that the requirement to have a written contract for approved alterations work in place before Budget day was too restrictive as the construction work is the final phase in a project which can also include lengthy planning and in some cases fundraising phases, both of which involve the owner or developer incurring costs.⁵⁶

In turn, the government proposed that these arrangements should be more generous, but did not change their position on removing this zero-rate:

Having specifically invited comments on the point, the Government will amend the transitional arrangements to make them more generous and provide relief to more projects already underway at Budget by specifying an earlier trigger point for projects to benefit from transitional relief and by extending the length of the transitional period. We have considered a number of options and

⁵³ Treasury Committee, Letter from the Exchequer Secretary to the Treasury, David Gauke MP to the Chairman of the Treasury Select Committee, Andrew Tyrie MP, 28 May 2012

⁵⁴ [HC Deb 28 June 2012 c21WS](#)

⁵⁵ HMRC, [VAT: Addressing borderline anomalies – summary of responses](#), 28 June 2012 para 2.6.2

⁵⁶ As above para 2.6.8-9

concluded that in order to be fair, the trigger point should apply equally to all types of project.

Projects will therefore now also continue to benefit from zero-rating if listed building consent (or the equivalent approval for listed places of worship) had been applied for before 21 March 2012 (Budget day). This is in addition to the works which qualify because there was a written contract in place before Budget day or because it was a substantial reconstruction project meeting the 10% test. The Government will also extend the end of the transitional period to 30 September 2015, allowing qualifying projects to continue to benefit from zero-rating for 3½ years, or 4 summers. This should ensure that the majority of qualifying projects underway at Budget should qualify for transitional relief [...]

HMRC are of the view that there remains a strong case for removing a relief that is illogical and poorly targeted. The VAT system is not the most effective vehicle for achieving targeted policy objectives, such as bringing listed buildings back into use. Removing the zero rate for approved alterations work reflects the Government's view that support for the heritage, and public money for such objectives, is better channelled through expenditure rather than poorly targeted tax reliefs, especially when public finances are tight [...]

It is logical to extend [the Listed Places of Worship Grant scheme] to alterations, when the VAT treatment of alterations and repairs is put on the same footing, and the government has agreed to increase this fund by £30m a year. The Government is confident that this will cover the additional costs borne by listed places of worship following the VAT change.⁵⁷

Further details of the transitional arrangements were published the following month.⁵⁸

As noted, initially it had been estimated that scrapping the zero rate would raise £35 million in 2012/13, rising to £85 million in 2013/14. HMRC estimated that the new transitional arrangements would cost around £5 million in each year.⁵⁹

To make these changes, the Government put down a new schedule to the Finance Bill, which was debated and approved at the Bill's report stage of 3 July 2012.

On this occasion the then Exchequer Secretary David Gauke argued that this change showed "that the government are willing to listen to practical concerns and to amend the proposal accordingly, without undermining the rationale for the measures." Speaking for the Opposition Catherine McKinnell MP argued that there should not be any changes to "VAT exemptions until [the government have] ... worked out exactly what the impact of any change

⁵⁷ As above para 2.6.14-5, para 2.6.24

⁵⁸ HMRC, [VAT: approved alterations to listed buildings - VAT Information Sheet 10/12](#), August 2012. See also, HMRC VAT Construction Manual – from [para 08900](#) on.

⁵⁹ HMRC, [VAT: Addressing borderline anomalies – summary of responses](#), 28 June 2012 p57

would be on jobs, living standards and business,” though the government refused to undertake any further formal research on the issue.⁶⁰

In his speech Mr Gauke touched on the Government’s decision to increase the funding for church repairs, through the Listed Places of Work Grant Scheme:

For listed buildings, the borderline between alteration and repair or maintenance is a major source of confusion. The Budget announcement has no impact on the repair and maintenance of listed buildings, which have always been liable to VAT, so there will be no change to the VAT treatment of repairs to thatched roofs or steeples, contrary to what has been reported in the press. The Budget decision also reflects our view that grants can provide a more flexible mechanism than VAT for providing specific financial support for the heritage sector [...]

The Budget proposal for alterations to listed buildings includes transitional arrangements, and, following the consultation, we have decided to make these more generous. As with the Budget proposal, the transitional arrangements will cover cases where written contracts had been entered into before Budget day 2012 or, in the case of the first grant of buildings that have been substantially reconstructed, where 10% of the work had been completed before Budget day.

We have now agreed that they should also apply where listed building consent had been applied for before the Budget, and the transitional arrangements will be extended so that, where a project qualifies, zero rating can apply until 30 September 2015. These extensions will mean that the zero rate will continue to apply for most alteration projects where work was close to starting at the time of the Budget announcement⁶¹

Catherine McKinnell asked the Minister if the government had “received any expressions of concern about churches, which often rely on fundraising to undertake works, having to raise additional money, which they will then have to reclaim from Her Majesty’s Revenue and Customs, or about the additional burden that this will place on what are already quite stretched resources?” In response Mr Gauke said:

I understand the point the hon. Lady raises [...] She is suggesting that in order to fund a project, a church group would need to fund the cost, plus 20%. That is not how it should work, because the scheme will be sufficiently flexible to ensure that a church group will have the funding in time, so that it does not have to raise an additional 20% or so. I have had considerable conversations with Church representatives on this issue, and I am not getting representations that they are concerned about that point.⁶²

⁶⁰ HC Deb 3 July 2012 c784, c785. The new schedule was approved by 311 votes to 230 (HC Deb c830).

⁶¹ HC Deb 3 July 2012 c779

⁶² HC Deb 3 July 2012 c780

6 The Listed Places of Worship Grant Scheme

6.1 Introduction of the scheme in 2001

As noted, the then Conservative government had rejected calls for a lower rate of VAT on church repairs in response to the campaign for VAT relief in the mid 1990s. In turn the Labour government which assumed office in 1997 took the same position on this issue. The then Paymaster General, Dawn Primarolo, set out the government's case in some detail in an adjournment debate in November 1999:

It is important to set out how much relief, in total, goes to churches and charities. It would be wrong to pick on one area and make it sound as if the Government are not doing anything and have not done anything since the 1997 election because, in practice, churches are generally exempt from direct tax on all their income and gains and enjoy business rate relief, which also extends to religious bookshops run by a church or other religious charities [...]

The Government want to create an environment in which charities can succeed, not by raising money for them, but by creating a framework in which they can concentrate on their core activities. The tax system already recognises the vital role that charities play. Charities receive over £2 billion of tax reliefs every year--a substantial amount of which goes to churches--including more than £1 billion of relief from direct tax and £200 million of relief from VAT [...]

As I said to my hon. Friend [Stuart Bell MP, who secured the debate], the existing European tax law does not currently let church repairs qualify for a reduced or zero rate of VAT. He rightly referred to the £20 million in conservation grants being offered to listed churches by English Heritage and the heritage lottery fund joint church grants scheme. Since the launch of the scheme, assistance has been given to several churches. In addition, if a church is holding a one-off fund-raising event--for example, to repair the church steeple--the event will be covered by a tax exemption.

VAT covers everybody, including businesses, charities and churches. It is important that the tax works fairly for everyone and that we do not, with good intentions for some people, build into the system ways in which others have access to relief when they should not.⁶³

In his Pre-Budget Statement on 8 November 2000, the then Chancellor Gordon Brown announced a change in the government's approach. The Chancellor confirmed the government had made representation to the

⁶³ HC Deb 17 November 1999 c 115

European Commission for a change in the EU VAT rules to allow for a 5% reduced rate on this supply.⁶⁴ As a first step the government made representation to the Commission “to ask for consideration of early legislative proposals to add repairs, maintenance and improvements to listed places of worship to the list of permissible reduced rates.”⁶⁵ In February 2001 the Commission indicated that it would consider the proposal as part of its general review of reduced VAT rates in 2003.⁶⁶

Subsequently in his 2001 Budget statement the Chancellor announced that in advance in any change in the EU rules, the government would introduce a grant scheme to compensate churches for the VAT cost of repairs:

In both urban and rural areas, our churches are essential features of our community life and are at the heart of our rich heritage as a nation. To help preserve that heritage and to cut the costs of saving and repairing our listed church buildings, we will introduce for repairs started after 1 April a new grant, which is the equivalent of a VAT reduction from 17½ per cent. to 5 per cent. - a reform long sought after by congregations across the country.⁶⁷

The then Arts Minister Baroness Blackstone launched the Listed Places of Worship Grant Scheme on 4 December 2001.⁶⁸ Initially the government did not set a cap on the scheme’s funding; all listed places of worship that meet the criteria would be entitled to receive a grant. Initial estimates were that the scheme could be worth up to £30 million a year.⁶⁹ The original features of the scheme were as follows:

- applies only to repairs and maintenance to listed buildings that are used principally as places of worship
- applies to listed places of worship throughout the UK
- applies to listed places of worship of all religions
- applies to places of worship owned by or vested in a number of specified organisations which look after redundant churches
- is non-discretionary
- covers work carried out on or after the 1st April, 2001
- only accepts applications made in arrears; and
- uses the difference between the VAT paid (normally 17.5%) and 5% to calculate the grant allowed.

⁶⁴ HC Deb 8 November 2000 c 318; Pre-Budget Report Cm 4917 November 2000 p 134

⁶⁵ HC Deb 16 November 2000 c 759W

⁶⁶ HC Deb 7 February 2001 c 622W

⁶⁷ HC Deb 7 March 2001 c300. see also, Dept for Culture, Media & Sport press notice 61\2001, 7 March 2001

⁶⁸ HL Deb 4 December 2001 c129WA

⁶⁹ DCMS press notice 313/01, 4 December 2001; HC Deb 4 December 2001 cc198-9W

The Church Commissioners welcomed the scheme,⁷⁰ though continued to lobby at a European level for a suitable amendment be made to EU VAT law.⁷¹

6.2 Extension of the life of the scheme up to 2010/11

In the 2004 Budget the Labour Government announced that the Scheme would refund the full VAT cost on eligible repair work for the following two years:

It remains one of the Government's clear objectives to achieve a permanent reduced rate of VAT for repairs to listed places of worship, which would offer the permanence, simplicity and certainty that a grant scheme cannot. However, against a background of success, with around 4,500 listed places of worship having benefited from congregations spending over £140 million since 2001, the Government is keen to promote even greater take-up of the scheme to help tackle any backlog of repairs and promote the upkeep of Britain's historic places of worship.

Therefore, for spending from 1 April 2004 until March 2006, unless a permanent VAT reduced rate is achieved earlier, grants will be paid to cover all the VAT on the repair and maintenance of listed places of worship.⁷²

The Labour government extended the lifetime of the scheme on two occasions:

- in the 2005 Budget the scheme was extended to 2007/08
- in the 2006 Budget the scheme was extended to 2010/11.⁷³

At this time the scheme was widened slightly, to include expenditure that had previously been ineligible for relief: specifically, architect and surveyor fees, along with some church fixtures and fittings.⁷⁴ Over this period the Labour government said that it would continue to lobby for a change in the EU VAT rules, though it resisted calls to extend the grant scheme, either to non-listed places of worship, or to listed buildings other than churches.⁷⁵ The purpose of the scheme was underlined in a written answer in October 2006:

Mr. Carmichael: To ask the Chancellor of the Exchequer (1) what discussions he has had with other EU countries about extending VAT relief to church buildings which are not listed; (2) what assessment he has made of the merits of extending VAT relief to church buildings which are not listed.

⁷⁰ HC Deb 21 January 2002 cc612-4

⁷¹ HC Deb 7 April 2003 c17

⁷² Budget 2004, HC 301 March 2004 para 5.76

⁷³ Budget 2005, HC 372, March 2005 para 5.89; Budget 2006, HC 968, March 2006 para 5.75

⁷⁴ Dept for Culture, Media & Sport press notice 041/06, 28 March 2006

⁷⁵ HC Deb 15 June 2005 c397W; HC Deb 4 April 2005 c1168W; HC Deb 23 June 2005 c1127W

Dawn Primarolo: European agreements governing the application of VAT reliefs mean that while the UK can retain its existing VAT zero rates, such as those for approved works of alteration to certain listed buildings, we cannot extend them or introduce new ones. It is therefore not possible to zero-rate alteration or repair work carried out to unlisted church buildings. Furthermore, the same agreements do not allow for the application of reduced rates in this area.

The Government recognise that listed places of worship are not just an essential part of our religious life but an important part of the history and fabric of our country, and that the need to use specialist craftsmen and costly materials means their upkeep can be a heavy burden, particularly on small congregations.

That is why the Government have pressed the case at EU level for their repair and maintenance to be added to the supplies for which a reduced rate of VAT is available. However, while we recognise the importance of all places of worship within their communities, we also recognise that listed status means that the special architectural or historic interest in the church in question has been acknowledged and as such special tax treatment is justified on this basis.⁷⁶

Although there were changes in the EU rules on VAT rates over this period, no provision was made for any Member State to introduce a reduced rate of VAT on church repairs. In a written answer on the Listed Places of Worship Scheme, prior to the last amendment of the EU VAT rules in 2009, the Labour government stated that it would keep the future life of the scheme under review, in the light of any changes to these rules.⁷⁷ In March 2010 it simply stated that the future of the scheme beyond March 2011 would be “considered in the spending review later this year.”⁷⁸

6.3

Modifications to the scheme 2011-2014

In the days before the publication of the Coalition government’s Spending Review on 20 October, the Department for Culture, Media & Sport (DCMS) announced that the original scope of the scheme would be restored from January 2011 to reduce costs, though the scheme’s future after March 2011 was still under review:

At the moment listed places of worship, of any faith or denomination, can claim a grant equal to the VAT paid on eligible works. However, following discussions with church bodies, it has been agreed to return the scheme to its original scope of eligibility which will exclude works on clocks, pews, bells, organs and professional services such as architects’ fees, for the rest of this financial year. The future of the scheme beyond this year is still under review, and will be resolved as part of the CSR process ... The changes will come into

⁷⁶ HC Deb 31 October 2006 c321W

⁷⁷ HC Deb 10 February 2009 c1851W

⁷⁸ HC Deb 30 March 2010 c1049W

effect from 4 January and will apply until the current end date of the scheme, 31 March.⁷⁹

In the Spending Review DCMS announced that a fixed sum had been allocated to continue the scheme for a further four years, until 2014/15: “in line with previous announcements, from January 2011 we will be returning this scheme to its original scope of eligibility and these restrictions will also apply for the next spending review period.”⁸⁰

In the New Year DCMS announced new arrangements for the Scheme for 2011/12 and beyond. The total budget for the scheme would be fixed in cash-terms, and each quarter the sum of money available would be divided between eligible claims on a pro-rata basis.⁸¹ The change was just mentioned briefly at Church Commissioners Questions in April 2012.⁸²

As noted, in July 2012 the Coalition government announced it would increase the annual budget of the scheme by £30 million and amend its scope to fully compensate churches for the impact of removing VAT relief from alteration work.⁸³ In September 2013 the government announced some changes to its scope, to apply from 1 October 2013: works to pipe organs, turret clocks, bells and bell ropes would be eligible for claims under the scheme, as well as professional services directly related to eligible building work such as architect fees.⁸⁴ Subsequently in the 2014 Autumn Statement the government announced the introduction of a separate fund to support the maintenance of church roofs.⁸⁵ This second scheme was not open-ended, and was subsequently closed.⁸⁶

6.4 Recent developments

In October 2022 the Conservative government stated that it would provide funding for the scheme at least until 31 March 2025.⁸⁷ In answer to other PQs, ministers in the Conservative government reiterated its commitment to the scheme, but gave no indication that they saw a case for introducing any new

⁷⁹ DCMS press notice, [Savings measures announced for Listed Places of Worship grant scheme](#), 7 October 2010

⁸⁰ HC Deb 21 October 2010 cc59-70WS; see also, HC Deb 25 October 2010 c5. Data published alongside the statement indicated that the scheme would be allotted £10.8 to £11.6 million each year over the next four years (DCMS, Spending Review Settlement Data : allocations by spend, October 2010).

⁸¹ At the time details were published on the DCMS site, though Ministers do not appear to have issued a press notice or written statement.

⁸² HC Deb 5 April 2011 c893. See also, HC Deb 20 January 2012 cc984-5W; HC Deb 14 June 2011 c673W; HC Deb 7 September 2011 c615W; HC Deb 30 January 2012 c378-9W. For details of total annual payments under the scheme up to 2013/14 see [PQ218096](#), 17 December 2014.

⁸³ For details see, DCMS, [Upcoming changes to the Listed Places of Worship Grant Scheme](#), 15 August 2012

⁸⁴ DCMS press notice, [Listed Places of Worship Grant Scheme extended](#), 20 September 2013

⁸⁵ Autumn Statement, Cm8961, December 2014 para 2.252

⁸⁶ [PQ909029, 2 March 2017](#)

⁸⁷ [PQ72246](#), 31 October 2022

VAT relief.⁸⁸ The total amount of funding allocated to the scheme has continued to be £42 million a year, although, as noted in answer to a PQ in September 2023, historically, the scheme has operated with an underspend each year. At this time the government confirmed that “efforts are underway to reduce underspend, including via a new LPWGS website and comms outreach campaign.” Initial data since the launch of the website in July 2023 had indicated a gradual increase in uptake and grants being made.⁸⁹

In December 2023 the Department for Culture Media and Sport (DCMS) published details of all grants made from August 2022 – around 5,000 in total.⁹⁰ In addition to making awards to Christian places of worship, the scheme awarded more than £3 million to 416 Non-Christian listed places of worship since August 2022. This includes Buddhist, Jewish, Islamic, Hindu and other denominations.⁹¹

DCMS does not have data on individual grants made before this date due to a change in the grant administrator.⁹² In answer to a PQ in April 2024, the department stated that based on the data that it had, “it can be estimated that 22,633 listed places of worship were the recipients of grant funding through the scheme since 2014.”⁹³

Ministers have also set out the other forms of grant support available for listed places of worship:

There is a range of support available via DCMS and the Department’s Arm’s-Length Bodies for listed places of worship.

These include the Listed Places of Worship Grant Scheme; the National Lottery Heritage Fund’s £15m Heritage in Need: Places of Worship initiative, funded through the National Lottery between 2023 and 2026; the Churches Conservation Trust (CCT), which funds repairs and maintenance of over 350 churches in the CCT portfolio; and Historic England’s Heritage At Risk grants, which support certain religious buildings such as cathedrals on the Heritage at Risk register.⁹⁴

Following the 2024 general election, the government made no mention of the future of the scheme in its [2024 Autumn Budget](#) (PDF).

In answer to a PQ the month following the Budget, Chris Bryant, Minister of State at the Department for Culture, Media and Sport said: “Departmental settlements have been set following the Budget announcement on October 30. Individual programmes will now be assessed during the departmental

⁸⁸ [PQ47590](#), 8 September 2022. See also, [PQ113567](#), 18 November 2020; [PQ192876](#), 25 July 2023.

⁸⁹ [PQ_HL10241](#), 29 September 2023

⁹⁰ DCMS press notice, [Nearly 5,000 churches across the United Kingdom benefit from £42 million conservation fund](#), 22 December 2023

⁹¹ [PQ21603](#), 13 January 2025

⁹² [PQ21600](#), 13 January 2025

⁹³ [PQ21357](#), 23 April 2024

⁹⁴ [PQ21530](#), 8 January 2025. See also, [PQ17517](#), 11 December 2024, [PQ_HL4045](#), 8 May 2024

Business Planning process.”⁹⁵ Subsequently in a written statement on 22 January the minister announced that the Listed Places of Worship Grant Scheme would be extended until 31 March 2026:

Chris Bryant (Minister for Creative Industries, Arts and Tourism): The Government is extending the Listed Places of Worship Grant Scheme until 31 March 2026, the end of this Spending Review period. This will continue to enable religious organisations to claim grants covering eligible VAT costs paid towards repairs and renovations.

Nearly £350 million has been awarded under the scheme since 2010, supporting listed churches, synagogues, mosques and temples across the UK. The scheme receives around 7,000 applications a year, of which more than 70% are for £5,000 or less.

Against a tough financial background and bearing in mind a wide range of competing priorities for expenditure within DCMS, we have made the difficult decision to implement an annual limit of £25,000 on the amount individual places of worship can claim in the coming year, and to limit the fund to £23 million. We believe that this will continue the widest distribution of the scheme’s benefits within the available means. Based on previous scheme data we expect 94% of claims to be unaffected by this change.

Places of worship are a key part of our built heritage, central to local communities’ wellbeing, pride in place and identity. In addition to the benefits to their congregations, listed places of worship often also provide facilities for the wider community including foodbanks, community halls and music venues and rehearsal spaces. I am pleased that despite the challenging fiscal context we are able to continue the scheme for a further year.⁹⁶

The government has also been asked about the case of introducing new VAT reliefs, including a zero or reduced rate of VAT on church repairs. In answer to a PQ before the 2024 Autumn Budget the Exchequer Secretary, James Murray, set out some of the practical difficulties to introducing new VAT reliefs:

VAT is a broad-based tax on consumption, and the 20 per cent standard rate applies to most goods and services. It is the UK’s second largest tax, forecast to raise £176 billion in 2024/25. Tax breaks reduce the revenue available for public services, and must represent value for money for the taxpayer.

One of the key considerations when assessing any potential new VAT relief is whether the cost saving is likely to be passed on to consumers. Evidence suggests that businesses only partially pass on any savings from lower VAT rates. In some cases, therefore, reliefs do not represent the best value for money, as there is no guarantee that savings would be passed on to consumers, and therefore no guarantee that it would make certain products more accessible to the public.⁹⁷

The Financial Secretary Lord Livermore made similar points about new VAT reliefs in answer to a PQ in December 2024:

⁹⁵ [PQ14701](#), 21 November 2024. See also, [PQ14664](#), 21 November 2024; [PQ_H13116](#), 11 December 2024; [PQ24128](#), 21 January 2024.

⁹⁶ [WS 382 \[on Future of the Listed Places of Worship Grant Scheme\]](#), 22 January 2025

⁹⁷ [PQ7460](#), 14 October 2024. see also, [PQ7250](#), 14 October 2024; [PQ6978](#), 14 October 2024.

The Lord Bishop of St Albans: To ask His Majesty's Government what conversations they have had with heritage and faith communities about zero-rating VAT on repairs to listed buildings; and what assessment they have made of potential implications for the Listed Places of Worship Grant Scheme.

Lord Livermore: VAT is a broad-based tax on consumption and the 20 per cent standard rate applies to most goods and services. VAT is the UK's second largest tax forecast to raise £171 billion in 2024/25. Taxation is a vital source of revenue that helps to fund vital public services.

Evidence suggests that businesses only partially pass on any savings from lower VAT rates. In some cases, reliefs do not represent good value for money, as there is no guarantee that savings will be passed on to consumers.

To preserve heritage, restorative work carried out on listed buildings previously benefited from a zero rate of VAT. However, this relief was abolished in 2012, as it was primarily used to carry out extension work unnecessary for heritage purposes. Withdrawing this relief simplified VAT rules and also removed the scope for error when categorising construction work as either alteration or repair.

Over £350 million has been returned to churches, synagogues, mosques and temples through the Listed Places of Worship Grant Scheme. This has helped protect listed places of worship and enabled them to continue their work as centres of worship and community assets.

Departmental settlements have been set following the Budget announcement on October 30. The outcome of individual programmes, such as the Listed Places of Worship Grant Scheme, will now be assessed by the Department for Digital, Culture, Media & Sport as they finalise their financial allocation for 2025/26.

The Chancellor makes decisions on tax policy at fiscal events in the context of the overall public finances.⁹⁸

⁹⁸ [PQ HL3168](#) , 17 December 2024. See also, [PQ HL4051](#) , 21 January 2024.

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