

**Changes to the tax treatment of heritage maintenance  
funds: a cost benefit analysis**

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**Saffery Champness**  
CHARTERED ACCOUNTANTS



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### Foreword



Heritage is the UK's unique selling proposition or 'USP'. The power of 'Brand Britain' is driven by a combination of tradition and transformation, history and innovation, culture and commerce. The ever-evolving story of our nation is woven throughout the fabric of our world-famous historic environment.

Independently owned historic houses are one of the foundations of the UK tourism sector, now our fifth largest industry. Places such as Chatsworth, Longleat and Blenheim, along with hundreds of other houses that are open to the public, welcome over 26m visits each year. Together they generate £1bn in visitor spend and support tens of thousands of jobs. Places such as these are catalysts of wellbeing and creativity, hosting educational visits and charity events, developing innovative start-ups and putting on music festivals, sports events and much else besides.

Most historic houses open to the public are looked after and funded by private owners, rather than by charities or government. Although hundreds of historic houses faced demolition in the mid-20th century, many have today become successful businesses. Yet threats remain. The backlog of repairs at Britain's independent historic houses now exceeds £1.38bn. It is more efficient for this backlog to be met from the private sector, so there is a case for improving the conditions in which houses that are open to public access can generate funds for maintenance.

We are about to enter a period of change as the UK prepares to leave the EU. One certainty, as we look ahead, is that we are going to need our historic environment more than ever before. Now is the time to give our country's irreplaceable heritage assets the tools they need to survive and thrive into the future.

**Loyd Grossman CBE FSA**

**Chairman, The Heritage Alliance**

### Executive summary

- Historic houses across the country are facing a mounting threat to their ongoing viability, in the form of a backlog of repairs that currently totals £1.38bn – nearly £500m of which is urgent.<sup>1</sup> [Historic Houses \(HH\)](#) believes that reducing the significant Income Tax burden on Heritage Maintenance Funds (HMFs) would be the most cost-effective means of helping independent historic houses open to the public to generate funds (from their own resources) to tackle this growing conservation backlog.
- Introduced in 1976, HMFs are one of the primary fiscal vehicles available to encourage private individuals to set aside assets to maintain the UK's vital historic houses.<sup>2</sup> An effective and efficient vehicle in principle, HMFs are no longer being used to anything like their full potential because the income generated within them is now taxed at 45%. According to HM Revenue & Customs (HMRC) there are 134 HMFs in existence today. In other words, 8% of Historic Houses members hold assets in a HMF.
- Gifts to HMFs for the benefit of HMRC-approved and designated historic houses and land enjoy exemption from Inheritance Tax (IHT). In order to obtain approval, the owner of the designated heritage property must provide an element of public benefit through public access and commit to an agreed heritage maintenance plan.
- In the past, HMFs and trusts generally enjoyed more favourable Income Tax rates compared to an individual, providing a further incentive to support the desired public policy of supporting the UK's historic houses. However, changes to UK taxation have meant that HMFs no longer enjoy an Income Tax advantage.
- This has had the effect of undermining the policy of successive governments, set out in paragraph 1.1 of HMRC's published guidance [Capital taxation and the national heritage](#), and so recently reiterated by the Financial Secretary to the Treasury, Mel Stride, when he said:

*The Government recognises the cultural and economic contribution historic homes make right across the UK. Heritage Maintenance Funds play an important role in keeping historic homes in the best possible condition and making them accessible for the general public. That is why assets placed in Heritage Maintenance Funds continue to receive a complete exemption from inheritance tax.*<sup>3</sup>

- Located in all corners of the UK, independently owned historic houses are spreading the benefits of tourism and culture throughout the country. HH represents over 1,600 of these unique places, making it the largest collection of historic houses open to the public. Indeed, in 2017, close to 900 HH members were open to the public in some form or another.
- In light of the significant potential of reformed HMFs to work far harder to help fund the conservation of independently owned historic houses, HH commissioned Saffery Champness LLP and Nordicity to prepare an updated cost-benefit analysis (CBA) for improvements to the tax treatment of HMFs (in accordance with HM Treasury's [Green Book](#) guidance on appraisal and evaluation of public policies, projects and programmes).

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<sup>1</sup> DCResearch (2015), *The Economic and Social Contribution of Independently Owned Historic Houses and Gardens: Final Report*, October 2015, pp. 39, 66.

<sup>2</sup> Throughout this report, we use the terms "historic houses" to refer to "historic houses and gardens".

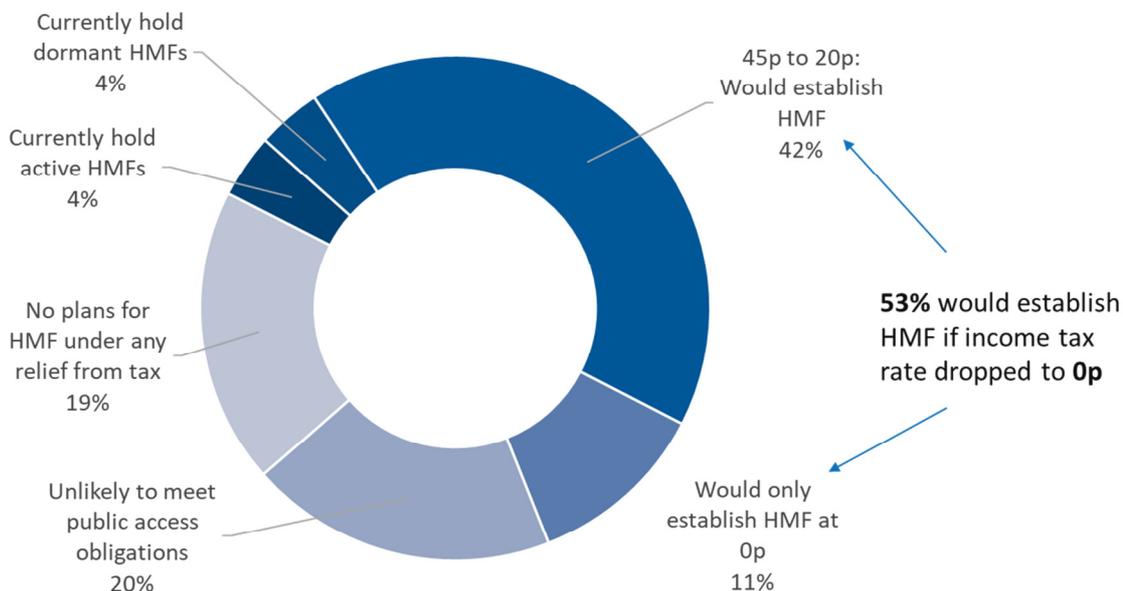
<sup>3</sup> Written answer by Mel Stride MP, Financial Secretary to the Treasury, 11 September 2017.

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- In particular, HH asked Saffery Champness and Nordicity to prepare an analysis of the net costs to the UK economy of reducing the marginal trusts tax rate of 45p now applicable to HMFs to either 20p or 0p and the net economic benefits that those changes would deliver.
- To prepare this CBA, Saffery Champness and Nordicity utilised data from an online survey of HH members in February/March 2018, along with desk research.
- Information from HMRC indicates that there are approximately 134 HMFs in existence today. In other words, 8% of HH's 1,638 members hold assets in a HMF, although approximately half of these are likely to be dormant (i.e. only contain nominal assets).
- The online survey indicated that among the 92% of historic houses that do not currently have a HMF there is a very high level of interest in establishing one if the rate of Income Tax applicable to HMFs were to be reduced (Figure 1).
  - 42% of historic houses (or 46% of those historic houses currently without a HMF) reported that they would likely establish a HMF if the Income Tax rate was lowered from 45p to 20p.
  - Under a scenario where the rate of Income Tax was lowered from 45p to 0p, 53% of historic houses (or 58% of those houses currently without a HMF) reported that they would likely establish a HMF.
  - 20% of historic houses (or 21% of those historic houses currently without a HMF) reported that they would be interested in establishing a HMF under a more favourable Income Tax regime, however, their survey responses indicated that they were unlikely to meet the public access obligations that would accompany a HMF.
  - 19% of historic houses (or 21% of those historic houses currently without a HMF) reported that they would not establish a HMF even if the rate of Income Tax was lowered to 0p.

Figure 1 Use and interest in HMFs, 2017



Source: Online survey of HH members, 2018  
n = 198

- To assess the costs of changing the tax treatment of HMFs, the CBA estimated the foregone tax revenue that would accompany the proposed changes to the Income Tax rate applicable to HMFs. The CBA included both the static costs (i.e. the foregone tax revenue associated with existing HMFs) and the behavioural costs (i.e. the foregone tax revenue associated with newly established HMFs or additional assets placed in existing HMFs).
- To assess the economic benefits of changing the tax treatment of HMFs, the CBA estimated the following types of benefits:
  - Increased expenditure on the maintenance, repair and preservation of historic houses
  - Increased tourism, including associated spending
  - Increased wellbeing for domestic visitors to historic houses.
- The results of the CBA for the 20p and 0p scenarios are summarised in Table 1 (next page).
- Under the 20p scenario, the net economic benefit (NEB) increases from £39.6m in 2019 to £85.5m in 2023, with most of the NEB being due to the monetary value of the additional effect on domestic visitors' wellbeing.
- Under the 0p scenario, the NEB increases from £33.4m in 2019 to £78m in 2023, with most of the NEB being due to the monetary value of the additional effect on domestic visitors' wellbeing.

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Table 1 Net economic benefit of changes to the Income Tax rate applicable to HMFs (£m)

	2018	2019	2020	2021	2022	2023
<b>45p → 20p scenario</b>						
<b>Costs</b>						
Static costs	0	6.3	6.3	6.3	6.3	6.3
Behavioural costs: HMF top-ups	0	0.3	0.5	0.5	0.6	0.6
Behavioural costs: New HMFs	0	8.1	12.2	14.2	15.2	16.2
<b>Total costs</b>	<b>0.0</b>	<b>14.7</b>	<b>18.9</b>	<b>21.0</b>	<b>22.1</b>	<b>23.1</b>
<b>Benefits</b>						
Maintenance, repair and preservation expenditures	0	2.2	3.3	3.8	4.1	4.4
Tourism	0	5.1	7.6	8.9	9.6	10.2
Wellbeing	0	44.7	67.1	78.2	83.8	89.4
Exchequer revenue		2.3	3.5	4.1	4.4	4.6
<b>Total benefits</b>	<b>0</b>	<b>54.3</b>	<b>81.5</b>	<b>95.1</b>	<b>101.9</b>	<b>108.7</b>
<b>Net benefit/(cost)</b>	<b>0</b>	<b>39.6</b>	<b>62.6</b>	<b>74.1</b>	<b>79.8</b>	<b>85.5</b>
<b>45p → 0p scenario</b>						
<b>Costs</b>						
Static costs	0	11.3	11.3	11.3	11.3	11.3
Behavioural costs: HMF top-ups	0	2.6	3.9	4.5	4.8	5.1
Behavioural costs: New HMFs	0	16.4	24.6	28.7	30.8	32.8
<b>Total costs</b>	<b>0.0</b>	<b>30.3</b>	<b>39.7</b>	<b>44.5</b>	<b>46.9</b>	<b>49.2</b>
<b>Benefits</b>						
Maintenance, repair and preservation expenditures	0	4.4	6.7	7.8	8.3	8.9
Tourism	0	5.7	8.6	10.1	10.8	11.5
Wellbeing	0	50.4	75.6	88.2	94.5	100.8
Exchequer revenue		3.0	4.6	5.3	5.7	6.1
<b>Total benefits</b>	<b>0</b>	<b>63.6</b>	<b>95.4</b>	<b>111.3</b>	<b>119.3</b>	<b>127.2</b>
<b>Net benefit/(cost)</b>	<b>0</b>	<b>33.4</b>	<b>55.7</b>	<b>66.8</b>	<b>72.4</b>	<b>78.0</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCRResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), ONS and HMRC.

Note: Figures may not sum to totals due to rounding.

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- In addition to this analysis of changes to the Income Tax rates applicable to HMFs, we also examined the NEB of (i) providing Capital Gains Tax (CGT) relief for HMFs and (ii) doing nothing. The results of this analysis (summarised in Table 2) demonstrate that the 20p scenario yields a higher NEB than the 0p scenario, owing to limited additional public access reported by houses under the 0p scenario.

Table 2 Summary of net economic benefit of tax reform options, 2023 outcomes (£m)

	A. 45p → 20p	B. 45p → 20p + CGT relief	C. 45p → 0p	D. 45p → 0p + CGT relief	E. Do nothing
Costs	18.5	15.4	43.2	39.4	9.3
Benefits	104.0	112.5	121.1	131.6	(25.5)
<b>Net benefit/(cost)</b>	<b>85.5</b>	<b>97.1</b>	<b>78.0</b>	<b>92.2</b>	<b>(34.8)</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), HMRC, ABS and ONS.  
Note: Figures may not sum to totals due to rounding.

- Under the 'do nothing' scenario, over time, public access to historic houses may erode. This erosion in public access could arise because:
  - Public access is crowded out by commercial use of houses (e.g. film and television filming, photography or private functions) so that historic-house owners can cover the costs of required maintenance, repair and preservation.
  - Financial resources may have to be diverted from expenditure on revenue costs associated with public openings (e.g. tour guides) to cover the costs of required maintenance, repair and preservation; thereby, leading to a reduction in the number of days open to the public.
  - Historic-house owners would lack the additional funds to make improvements to their houses required to accommodate the accessibility needs of an aging population, thereby leading to decreases in the annual number of visits.
- This erosion in public access could result in lower levels of economic benefits than are currently realised. Indeed, we estimate that the loss in tourism spending in the do-nothing scenario would ultimately cost the UK economy £34.8m by 2023.
- To estimate the value of the wellbeing benefits of visiting historic houses, our analysis drew upon the results of empirical research by Fujiwara et al. (2014). This research concluded that visitors to historic buildings placed a per-visit value of £394.71 (£416.41 in 2017 currency) on the wellbeing benefits.<sup>4</sup> In other words, visitors to historic buildings would have to be compensated £416.41, if they were denied their visit.

<sup>4</sup> Daniel Fujiwara, Thomas Cornwall and Paul Dolan (2014), [Heritage and Wellbeing](#), p. 6.

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- Given that our analysis is very sensitive to this particular assumption, and that this wellbeing estimate is considered an upper bound<sup>5</sup>, we conducted a breakeven analysis to determine how far below the upper bound the value of wellbeing benefits could fall and still yield a positive NEB. This breakeven analysis showed that the per-visit value of wellbeing benefits could be 73-96% below the upper bound (£416.41) and still yield a positive NEB.
- This finding indicates that the results of our CBA are robust. That is, even if the actual value of the wellbeing benefits is significantly below the upper bound estimated by Fujiwara et al., the proposed reforms to the taxation of HMFs would still yield a positive NEB.

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<sup>5</sup> Daniel Fujiwara et al. (2014), p. 5.

### 1. Introduction

#### 1.1 Background

##### ***The problem: the conservation backlog facing Britain's historic houses***

Located in all corners of the UK, independently owned historic houses are spreading the benefits of tourism and culture throughout the country. [Historic Houses](#) (HH) represents over 1,600 of these unique places, making it the largest collection of historic houses open to the public. Indeed, in 2017, 55% of HH members, or close to 900 houses, were open to the public in some form or another.<sup>6</sup>

Independent historic houses are the backbone of the UK's fifth biggest industry – tourism. Between them, the places represented by HH welcome over 26m visits each year<sup>7</sup> – generating £1bn in tourism spending for the UK economy<sup>8</sup> and supporting over 33,000 full-time-equivalent jobs (FTEs)<sup>9</sup> in largely rural areas. Alongside their role as leading tourism attractions, historic houses are often important rural business hubs: uniting culture, commerce and community through entrepreneurial activity.

Despite all this economic and social activity, independent research commissioned by HH has highlighted a mounting threat to the future of this irreplaceable historic house heritage, in the form of a backlog of repairs that, as recently as 2015, totalled £1.38bn over a five-year period,<sup>10</sup> nearly £500m of which was considered urgent.<sup>11</sup>

The estimated total value of outstanding urgent repairs as of 2015 (£480m over the next five years) can be compared against the estimated spend on annual repairs and maintenance – £85m, which shows an annual shortfall between the value of urgent repairs needed each year (£96m) and the expenditure on repairs and maintenance (£85m) of around £11m.<sup>12</sup> Houses both great and small have told HH that this shortfall in funding for urgent maintenance work, and their inability to generate enough funding to plug the gap, is the greatest threat to their ongoing viability as visitor attractions.

The impact of this conservation backlog is compounded by the fact that independently owned historic houses are opening to the public on an uneven playing field when compared with historic houses owned by major national charities, which are exempt from Income Tax and Inheritance Tax (IHT), benefit from Gift Aid, and enjoy widespread access to public grants.

One option that is sometimes suggested is that independent house owners should in fact put their houses into charities in order to raise funds for conservation, instead of remaining independent.

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<sup>6</sup> DCRResearch (2017), *Historic Houses Association Member Survey 2017: Final Report, September 2017*, p. 2.

<sup>7</sup> DCRResearch (2017), p. 8.

<sup>8</sup> DCRResearch (2015), *The Economic and Social Contribution of Independently Owned Historic Houses and Gardens: Final Report*, October 2015, p. 36.

<sup>9</sup> DCRResearch (2017), p. 39.

<sup>10</sup> DCRResearch (2015), p. 66.

<sup>11</sup> DCRResearch (2015), pp. 64-65.

<sup>12</sup> DCRResearch (2015), p. 65.

However, although this option is currently available to historic-house owners, only 6% of HH members have actually transferred their houses into a charitable trust.<sup>13</sup>

Indeed, the Government's own policy<sup>14</sup> seeks to encourage conservation of the national heritage for public benefit in *private* ownership, and states that owners should be encouraged to retain and care for it and display it to the public. Below we set out the costs and benefits involved if government were to rebalance the taxation of Heritage Maintenance Funds (HMFs) to enable independent historic houses throughout the country to fund urgent repairs from their own resources, in line with this policy aim.

### ***The opportunity: reforming Heritage Maintenance Funds***

Introduced in the Finance Act 1976 by a Labour Government, and improved in the 1980s by a Conservative Government, HMFs are one of the primary fiscal vehicles available to encourage private individuals to set aside assets to maintain the UK's vital historic houses for public benefit.<sup>15</sup>

Prior to the introduction of HMFs in 1976, historic houses could utilise the One Estate Election as a means to increase the after-tax income available for maintenance, repair and preservation of historic houses. In effect, the One Estate Election permitted house owners to offset any maintenance, repair or preservation expenditures in excess of the rental value of the main house against any rent earned from surrounding land – for example from cottages let out – if the properties were treated as a single estate. This had the effect of reducing or even eliminating any Income Tax on the rental income from surrounding property.

The introduction of HMFs expanded the Income Tax benefits of the One Estate Election to also include a relief from IHT. In fact, from 1976 until the One Estate Election was abolished in 2005, both schemes were available to private owners of historic houses.

For a HMF, assets are placed into trust for the benefit of HM Revenue & Customs (HMRC) approved and designated historic houses (those that are considered nationally important). Essentially, gifts to HMFs are exempt from IHT; the IHT is deferred for as long as the assets are held within the HMF. The income from this trust can only be used (or only ultimately be used if it has been accumulated) to maintain an approved heritage property, or be applied to certain heritage charities or certain other applications.

The trust income cannot be applied for non-heritage purposes (e.g. for the benefit of the trust's settlors or their families). By requiring owners to put these funds out of reach of their personal use and to dedicate them to the maintenance of nationally important heritage assets open to the public, HMFs essentially transfer funds from the private sector into public use and benefit; owners are in effect making a philanthropic donation to support the property's future as a place to be enjoyed by the public.

In order to obtain approval for a HMF, the owner of the designated heritage property must provide public benefit through agreed public access undertakings, and commit to an agreed heritage maintenance plan. Indeed, HMRC guidelines indicate that historic houses should provide

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<sup>13</sup> DCResearch (2015), p. 12.

<sup>14</sup> HM Government (last updated 2017) 'Capital Taxation and the National Heritage' <https://www.gov.uk/government/publications/capital-taxation-and-tax-exempt-heritage-assets>

<sup>15</sup> Throughout this report, we use the term "historic houses" to refer to "historic houses and gardens".

a minimum of 28 days of public access to house interiors (25 days where appropriate in Northern Ireland, Scotland and Wales), however, special exceptions are available.<sup>16</sup>

The Government has recently confirmed that it believes HMFs have a key ongoing role in ensuring the preservation of historic houses:

*The Government recognises the cultural and economic contribution historic homes make right across the UK. Heritage Maintenance Funds play an important role in keeping historic homes in the best possible condition and making them accessible for the general public. That is why assets placed in Heritage Maintenance Funds continue to receive a complete exemption from inheritance tax.*<sup>17</sup>

Whilst HMFs do benefit from favourable IHT treatment, evidence suggests that this is not sufficient to encourage their creation. According to HMRC, there are currently 134 HMFs in existence today. Of these, 38 were established after 1998, or an average of two new HMFs per year. However, it is likely that a large portion of these 38 are resettlements of previously established HMFs, in order to align the settlor with the ownership of the historic house and avoid double taxation of HMF income. Massey (2011) also suggests that among the total number of HMFs in existence, many are likely to simply be dormant (i.e. contain only nominal assets);<sup>18</sup> HMRC is unable to confirm the actual number of dormant vs. active HMFs.

In the past, HMFs and trusts generally enjoyed more favourable Income Tax rates compared to an individual, providing a further incentive to support the desired public policy of supporting the UK's historic houses (see Section 1.2.3 for additional detail). However, changes to UK taxation since 1976, and particularly since 2004, have meant that HMFs no longer enjoy an Income Tax advantage. Indeed, a 2017 survey of HH members indicated that approximately half of HH members were put off from establishing a HMF because of the taxation they were subject to, namely the 45p Income Tax rate.<sup>19</sup>

Reducing the Income Tax on HMFs to increase their take-up and public benefit would involve a modest, targeted tax change, with no changes to primary legislation required.

## 1.2 Current tax treatment of HMFs

### 1.2.1 Inheritance Tax

In broad terms, HMFs benefit from an exemption from IHT. The income generated by the HMF, and for six years (or until the earlier death of the settlor) the capital, must be applied solely for heritage purposes. There is no IHT charge on property transferred into a HMF, and HMFs are not subject to the usual periodic (10 yearly) charges which generally apply to discretionary trusts. If the capital held within a HMF is applied (after six years) for non-heritage purposes IHT becomes chargeable.

### 1.2.2 Capital Gains Tax

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<sup>16</sup> HMRC (2013), [Capital taxation and the national heritage](#), p. 61.

<sup>17</sup> Written answer by Mel Stride MP, Financial Secretary to the Treasury, 11 September 2017.

<sup>18</sup> William Massey (2011), "Analysis: Maintenance Funds for heritage property", [www.taxjournal.com](http://www.taxjournal.com), 25 March 2011.

<sup>19</sup> DCResearch (2017), p. 21.

No Capital Gains Tax (CGT) charge arises when assets are transferred into an HMF, as holdover relief will generally be available. However, any disposals of chargeable assets from the HMF will be subject to CGT on the same basis as other trusts, with tax rates up to 28% depending on the type of asset being disposed of.

As the trustees of an HMF are unlikely to be involved in running a qualifying business, there is little scope for any CGT charge to be mitigated by reliefs such as rollover relief or Entrepreneur's Relief. The CGT charge, therefore, represents a direct reduction in the amount of money available, following a disposal of trust assets, to spend on the heritage property (or to reinvest in the HMF itself).

Whilst this CBA focuses primarily on the potential benefits of a reduction in the Income Tax rate applicable to HMFs, our calculations illustrate that any reduction in the CGT payable by HMFs – other than where capital is applied for non-heritage purposes – could only impact favourably both on their usage and on the ability of owners of heritage properties to fund their repairs backlog.

### 1.2.3 Income Tax

As noted in Section 1.1, the tax benefits of HMFs have diminished significantly since their introduction in 1976. Figure 2 provides an overview of the historical trend in the incremental after-tax yield of HMFs. This incremental yield is driven by the differential between the Income Tax rate applicable to trust income (i.e. rate applicable to trusts [RAT]) and the top marginal Income Tax rate (including any investment-income surcharges), which represents the maximum potential Income Tax that could be assessed on income generated outside of a HMF (Figure 3).

At the introduction of HMFs in 1976, the difference between the top marginal Income Tax rate (98p)<sup>20</sup> and the RAT (50p)<sup>21</sup> meant that £100 of HMF income would yield £38 more after-tax income than if that same income had been generated outside a HMF.

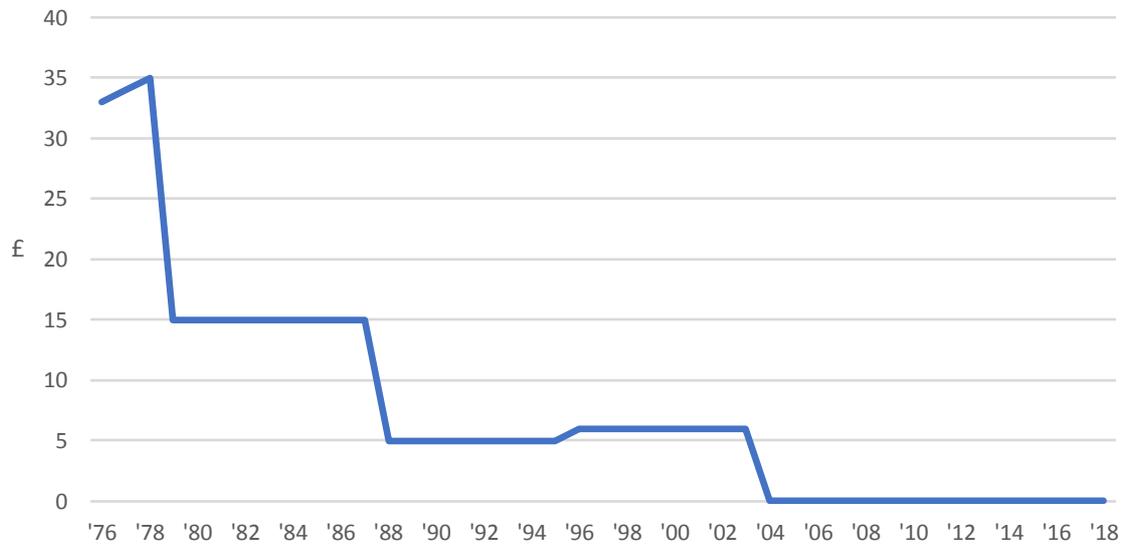
*Figure 2 Historical trend in Incremental after-tax yield of trust income (£ per £100 of gross income)*

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<sup>20</sup> This rate includes a top marginal Income Tax rate (83p) and an investment-income surcharge (15p).

<sup>21</sup> The RAT of 50p in 1976 consists of the Basic Rate (35p) plus a trust surcharge (15p). The first £2,000 of trust income was subject to a lower RAT of 45p – i.e. the Basic Rate (35p) plus a trust surcharge(10p).

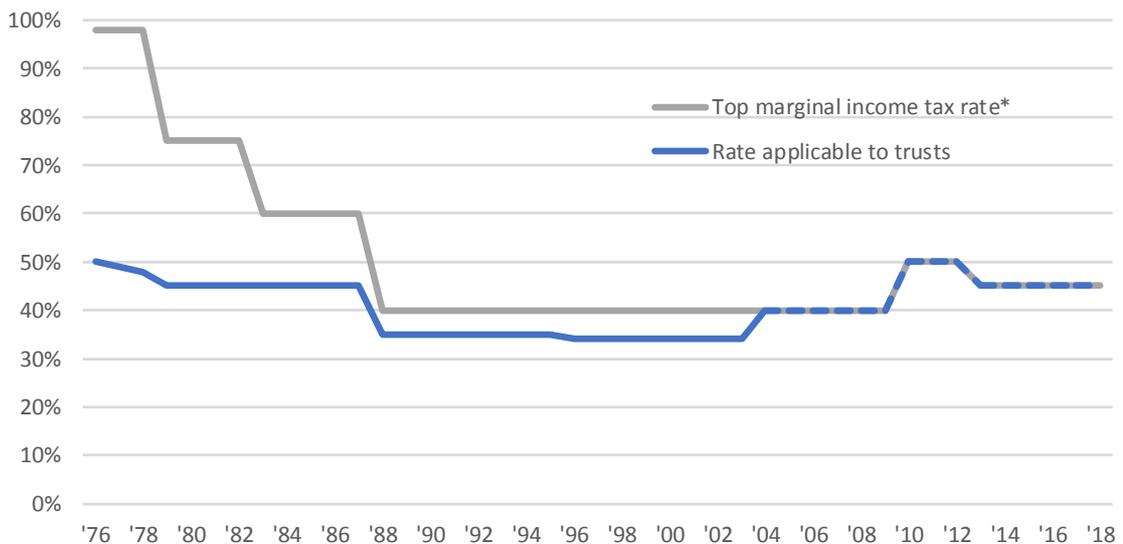
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Source: Saffery-Champness/Nordicity calculations based on data from HMRC.

Significant reductions in the top marginal Income Tax rate in 1979 and 1988 (see Figure 3) reduced the incremental after-tax yield of trusts such as HMFs. And in 2004, the incremental after-tax yield of HMFs fell to zero, as the RAT converged with the top marginal Income Tax rate. As a result, today there is no incremental after-tax yield associated with HMFs. So, whilst HMFs continue to offer IHT savings, they no longer offer any Income Tax benefit. This has reduced the overall tax benefit of these vehicles, thereby making them less attractive than they once were and making it more difficult for an historic house to raise the ongoing income they require for maintenance, repair and conservation.

Figure 3 Historical trends in tax rates



Source: HMRC.

\* Includes investment-income surcharge of 15p for 1976 to 1982.

### 1.3 Methodology

The analysis found in this section is based on a combination of a survey and desk research, and is consistent with guidance for such work published by HM Treasury (Green Book).

#### 1.3.1 Survey research

The CBA was based, in large part, on data collected through an online survey of HH members in February/March 2018.

This survey received a total of 215 valid responses, representing 13% of HH's 1,638 members. Whilst this response rate appears low on a percentage basis, on a statistical basis it implies that the margin of error associated with the survey estimates is:

- $\pm 5.6\%$ , 18 times out of 20 (i.e. 90% confidence interval)<sup>22</sup>
- $\pm 6.7\%$ , 19 times out of 20 (i.e. 95% confidence interval)

However, the margin of error will be higher for sub-sample of survey respondents.

Of these 215 valid responses, 100 respondents provided visitor statistics. The reported number of annual visitors summed to 5,066,631 across the 100 respondents, or an average of 50,666 per house. Based on this average, the sample of 215 respondents accounted for an estimated 10,893,257 in total annual visitors in 2017 or 42% of the 26,000,000 in estimated total annual visitors to HH members' houses.<sup>23</sup>

To account for the fact that the survey sample over-represented larger houses, the consulting team used attendance to weight survey results. Where a responding-house did not report its number of visitors, the average number of visitors (50,666) was used to impute its number visitors and weight the results.

As in previous research of the historic houses sector in the UK, this study assumes that HH membership is representative of the entire historic houses sector in the UK, even though there are a number of historic houses that are not HH members. In particular, this study assumes that the financial capacity, expenditure profile, visitor profile and opinions of HH members are not significantly different from non-members. This assumption permits the study to extrapolate the survey results to the wider sector. This approach does, however, imply that the overall estimates of costs, benefits and the net benefits may be understated.

#### 1.3.2 Desk research

In addition to the survey research, the consulting team also reviewed various relevant documents, including previous surveys of HH members, studies of the economic and social contribution of historic houses, tourism statistics, and statistics and information on taxation. A complete list of references and data sources can be found at the end of this report.

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<sup>22</sup> This margin of error can be interpreted in the following manner. If, for example, if 50% of the respondents in the sample reported that they would be interested in establishing a HMF, then the true percentage across the entire HH membership is, with a 90% probability, likely to fall within the range of 44.4% and 55.6%. There is a 10% probability that the true percentage of HH members that would be interested in establishing a HMF falls outside this range.

<sup>23</sup> DCResearch (2017), p. 8.

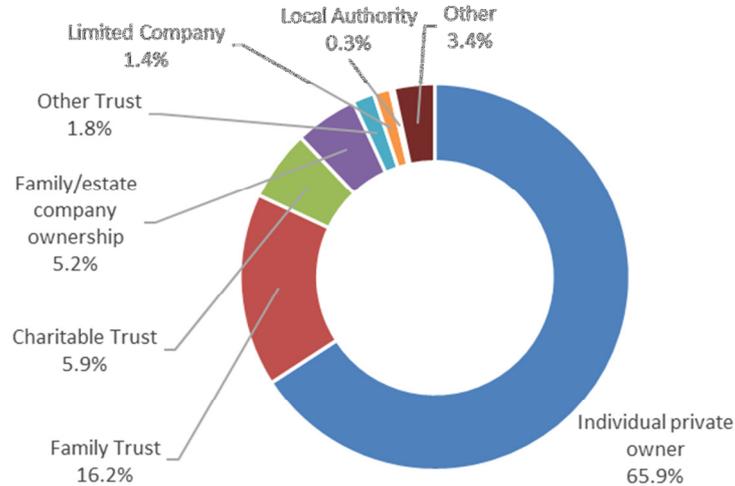
### **1.4 Profile of historic houses**

The following section draws upon data from the online survey and other sources to provide a profile of historic houses in relation to characteristics relevant to the CBA.

#### **1.4.1 Ownership structure and other house characteristics**

According to survey research conducted by DC Research in 2015, the majority (65.9%) of historic houses are owned by private individuals (Figure 4). Family trusts account for 16.2%, while charitable trusts account for 5.9%. Only 1.4% of historic houses are owned through a limited company.

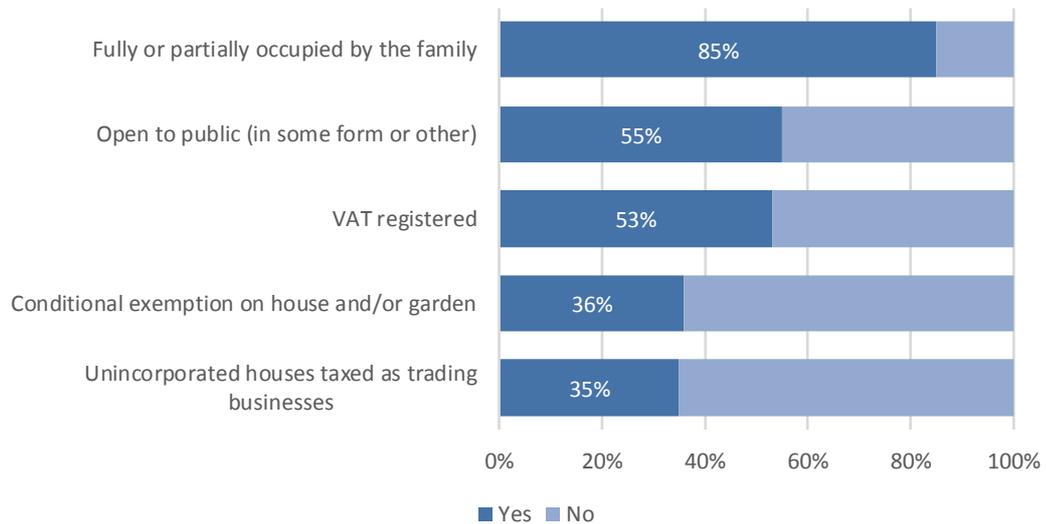
Figure 4 Ownership structure of HH members



Source: DC Research (2015)

Figure 5 summarises selected characteristics of historic houses based on survey research conducted by DC Research in 2017. Note that 35% of historic houses reported in 2017 that they were taxed as trading businesses.

Figure 5 Selected characteristics of historic houses

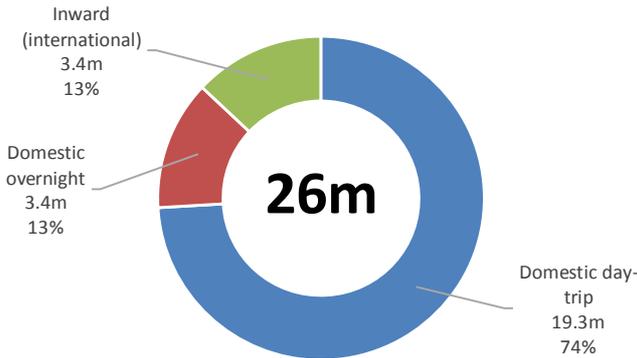


Source: DC Research (2017)

1.4.2 Annual visitors

There were an estimated 26m visitors to historic houses and gardens in 2016.<sup>24</sup> We have assumed that the number of visitors was unchanged in 2017. According to the survey (conducted in February/March 2018), approximately 13% of visitors originated from outside the UK – i.e. inward tourism visitors. On the basis of survey research conducted by DCResearch in 2015 we also concluded that the 87% of visitors comprised of domestic tourists can be subdivided into 74% domestic day-trip visitors and 13% domestic overnight visitors.

Figure 6 Annual visitors to historic houses

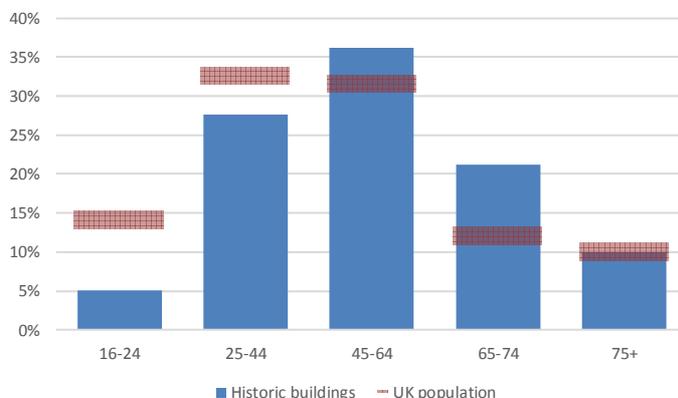


Source: Saffery-Champness/Nordicity analysis based on data from 2018 survey and DCResearch (2015 and 2017)

Data from the DCMS’s *Taking Part Survey* and the Office for National Statistics (ONS) can be used to ascertain the relative demographic composition of domestic visitors to historic houses. The *Taking Part Survey* asked UK households about their visits (during the last 12 months) to “historic buildings open to the public (non-religious)”. The age profile of the positive respondents to this *Taking Part Survey* question indicate that domestic visitors to historic houses skew towards an older age group.

<sup>24</sup> DCResearch (2017), p. 8.

Figure 7 Age profile of historic-houses visitors vs. UK population



Source: Saffery-Champness/Nordicity analysis based on data from DCMS Taking Part Survey and ONS

### 1.4.3 Use of and interest in HMFs

Information from HMRC indicates that there are **134 HMFs in existence today**. In other words, 8% of HH members hold assets in a HMF (Figure 1).<sup>25</sup> This take-up rate of 8% is consistent with the survey research conducted by DC Research in 2017; it estimated a take-up rate of 9%.<sup>26</sup>

The online survey indicated that among the 92% of historic houses that do not currently have a HMF, there is a very high level of interest in establishing one if the rate of Income Tax applicable to HMFs is reduced.

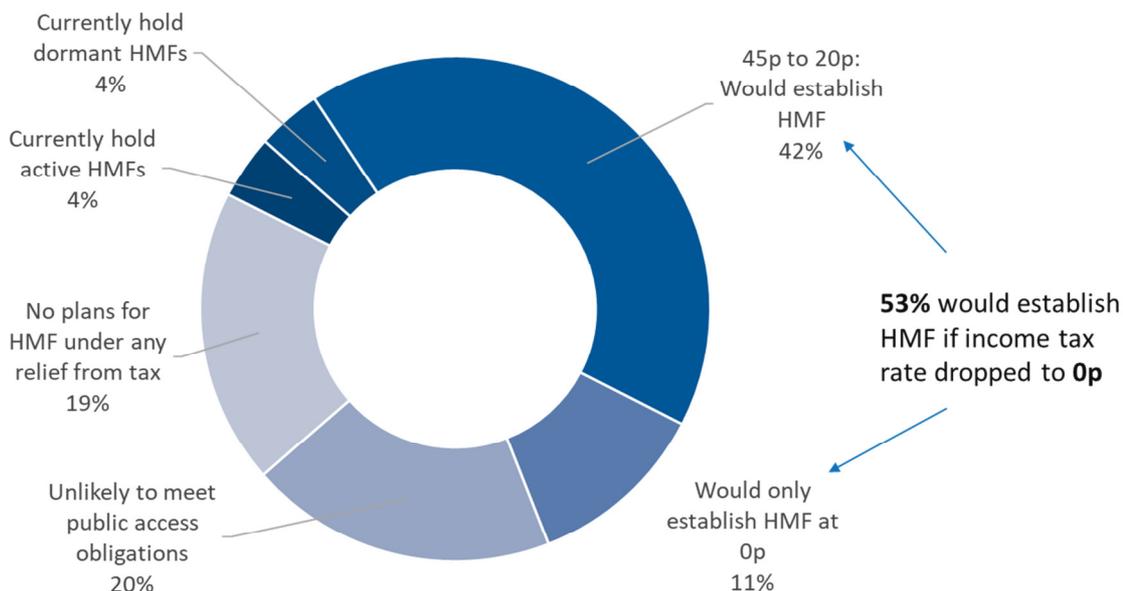
- **42% of historic houses** (or 46% of those historic houses currently without a HMF) reported that they would likely establish a HMF if the Income Tax rate was **lowered from 45p to 20p**.
- Under a scenario where the rate of Income Tax was **lowered from 45p to 0p**, **53% of historic houses** (or 58% of those houses currently without a HMF) reported that they would likely establish a HMF.
- **20% of historic houses** (or 21% of those historic houses currently without a HMF) reported that they would be interested in establishing a HMF under a more favourable Income Tax regime, however, their survey responses indicated that they were **unlikely to meet the public access obligations that would accompany a HMF**.
- **19% of historic houses** (or 21% of those historic houses currently without a HMF) reported that they would **not establish a HMF** even if the rate of Income Tax was lowered to 0p.

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<sup>25</sup> The assumption is that all HMF holders are also HH members.

<sup>26</sup> DCResearch (2017), p. 21.

Figure 8 Use and interest in HMFs, 2017



Source: Online survey of HH members, 2018  
n = 198

#### 1.4.4 Satisfaction with HMFs

Through the online survey, we also asked historic houses that currently hold assets in a HMF to rate their satisfaction with their HMF on a scale of 0 to 10 (with 0 being 'not at all satisfied' and 10 being 'completely satisfied'). Based on this scale, **the average satisfaction score was 4.5 out of 10** (Figure 9). Indeed, over 60% of houses that responded to this question gave their HMFs a satisfaction rating of between zero and five. This average rating was consistent with the satisfaction score of 4.7 reported on the 2017 member survey.<sup>27</sup>

According to survey respondents, most of the relatively low rate of satisfaction is due to the taxation that HMF income is subject to. Many respondents felt that HMF income should be available on a gross basis if it is devoted to the maintenance, repair or preservation of heritage properties open to the public.

*The main problem is the full higher rate [sic] of Income Tax being charged on the dividend income from the fund.*

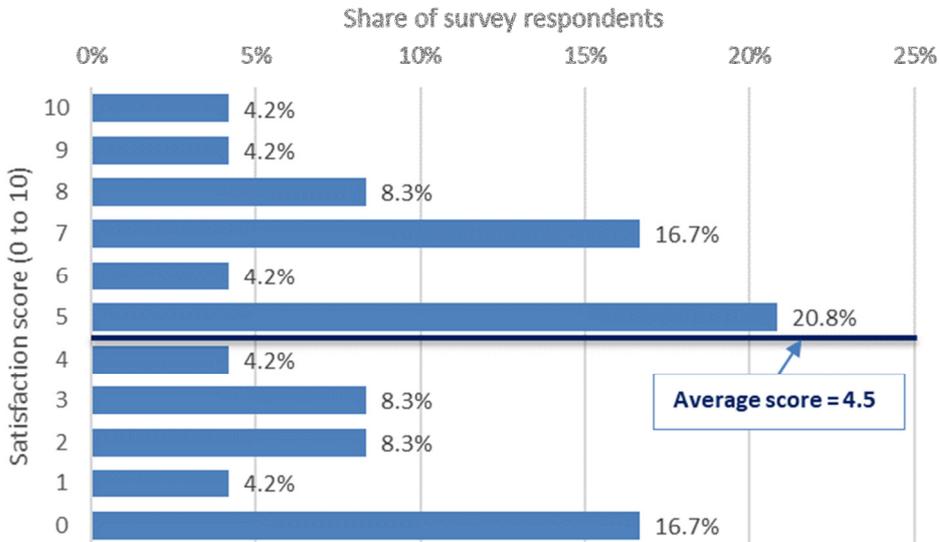
*The ability to spend the net income gross on heritage assets...*

*For the MF income to be used on the house before tax. Currently almost half the income of the MF goes back to the government in tax.*

Some survey respondents also called for tax relief from CGT and from non-recoverable VAT.

<sup>27</sup> DCResearch (2017), p. 21.

Figure 9 Satisfaction with HMFs



Source: Online survey of HH members, 2018  
n = 24

### 2. Cost-benefit analysis

In the following section, we provide a CBA of a reduction in the rate of Income Tax applicable to HMFs from the current 45p rate to both 20p and 0p. We then go on to estimate the benefits such a reduction would generate for the UK economy, including the direct Exchequer benefits as well as benefits to local economies and the general population.

#### 2.1 Costs

The following section provides estimates of the costs to the Exchequer in terms of foregone tax revenue, which would accompany the proposed changes to the Income Tax rate applicable to HMFs. The following types of costs are specifically examined:

- i. **Static costs:** The costs to the Government in terms of foregone tax revenue associated with existing HMFs. That is, under the assumption of no take-up of additional HMFs.
- ii. **Behavioural costs:** Here we consider two potential types of behavioural cost. Firstly, an increase in the funds held in existing HMFs as a result of a reduction in the tax rate, and second, the establishment of entirely new HMFs.

We then provide a summary of the net estimated cost to the Exchequer (section 2.1.4).

##### 2.1.1 Static costs

The static costs represent the foregone tax revenue that would occur if there was no change in the up-take of HMFs on account of the changes in the Income Tax rate. In other words, it represents the foregone tax revenue (and additional after-tax income for historic houses) related to existing HMFs if the rate of Income Tax is reduced.

According to the online survey, historic houses hold an estimated £890.1m in assets in HMFs. The online survey also indicated that these HMFs generate an average (before tax) income yield of 2.8%, or £25m in annual income.

The online survey also indicated that the vast majority of HMF income (91%) is derived from rental income as opposed to dividends or interest. In fact, dividend income only accounted for 8% of HMF income. For that reason, our estimates of the costs of changes to the taxation of HMFs are based solely on the Income Tax rate (45p) applicable to rental, trading and interest income, and does not reflect the lower tax rate (38.1p) applicable to dividends. This simplified approach, however, does not result in a significant overstatement of the costs of any changes to the taxation of HMFs, since the weighted average effective tax rate on HMF income – based on 8% income share for dividends – is 44.5p.<sup>28</sup>

At the current 45p tax rate, these historic houses, therefore, pay £11.3m in Income Tax annually, leaving after-tax income of £13.7m for the repair, maintenance and preservation of historic houses.

- Lowering the Income Tax rate from **45p to 20p** would reduce the Income Tax paid to £5m, thereby costing the Exchequer **£6.3m** in foregone tax revenue.

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<sup>28</sup> Our analysis also does not take into account that the first £1,000 in income generated by certain trusts is subject to lower rates of Income Tax – 20% on income from rent, trading and interest income, and 10% on dividends.

- Lowering the Income Tax rate from **45p to 0p** would cost the Exchequer **£11.3m** in foregone tax revenue.

### 2.1.2 Behavioural costs: topping up existing HMFs<sup>29</sup>

Any decrease in the rate of tax charged to HMF income could entice existing holders of HMFs to top-up the assets within their existing HMFs. In this sub-section, we estimate the potential value of these HMF top-ups and the costs to the Exchequer.<sup>30</sup>

If the rate of Income Tax on HMFs was lowered from **45p to 20p**, historic houses reported that they would **top-up their existing HMFs by 10%** (i.e. the median rate of top-up was 10% for responding historic houses). This implies that the assets, income and foregone tax revenue would be 10% higher than the static costs under this scenario. **Therefore, the annual cost to the Exchequer would be £630,000** [ $£6.3m \times 10\% = £630,000$ ].

If the rate of Income Tax on HMFs was lowered from **45p to 0p**, historic houses reported they **would top-up their existing HMFs by 46%** (i.e. the median rate of top-up was 46% for responding properties). This implies that the assets, income and foregone tax revenue would be 46% higher than the static costs under this scenario. **Therefore, the annual cost would be £5.1m** [ $£11.3m \times 46\% = £5.2m$ ].

### 2.1.3 Behavioural costs: establishing new HMFs

As noted in Section 1.4.3, there is a high degree of interest in establishing a HMF among historic houses under scenarios where the rate of Income Tax was lowered from 45p. The behavioural costs represent the forgone tax revenue that would result from any increase in the uptake of HMFs following a change in the applicable Income Tax rate.

#### 45p rate lowered to 20p

Forty-two per cent of historic houses, or 686 houses, indicated through the online survey that they would establish a HMF if the rate of Income Tax was lowered from 45p to 20p.

These historic houses reported that their average annual spending on maintenance, repair and preservation was £70,839.

These historic houses reported, however, that over the next five years (i.e. 2018 to 2022), the estimated cost of all required repairs would, on average, be £995,812, or £199,162 on an annualised basis.

These historic houses also reported that they believed the after-tax income from an HMF (under this 20p scenario) could cover 38% of this annual repair requirement of £199,162. In other words, these historic houses believe that their HMFs would generate £94,602 of annual income

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<sup>29</sup> Throughout this and the following section we assume that income generated by assets added to new or existing HMFs would otherwise have been subject to Income Tax at the additional rate (45p).

<sup>30</sup> Note that a very small number of respondents reported on their behaviour with regards to the topping up of HMFs. Only 11 of 38 respondents that currently have a HMF answered this question.

$[\pounds199,162 \times 38\% \div [1 - 20\%] = \pounds94,602]$ .<sup>31</sup> This is approximately half the average annual income ( $\pounds186,667$ ) of current HMF holders, as implied by the survey data.

Assuming that these 686 historic houses could generate average annual income of  $\pounds94,602$ , the cost to the Exchequer in terms of **forgone tax revenue would be  $\pounds16.2\text{m}$**  [ $\pounds94,602 \times 686 \times 25\% = \pounds16.2\text{m}$ ].

### 45p rate lowered to 0p

Fifty-three per cent of historic houses, or 874 houses, indicated through the online survey that they would establish a HMF if the rate of Income Tax was lowered from 45p to 0p.

These historic houses reported that their average annual spending on maintenance, repair and preservation was  $\pounds66,992$ . This average was slightly lower than that reported by houses that would establish a HMF at a 20p Income Tax rate ( $\pounds70,839$ ), since it includes a wider sample of houses – i.e. those that would establish a HMF at a 20p Income Tax rate and those that would only establish a HMF at a 0p Income Tax rate.

These historic houses reported, however, that over the next five years (i.e. 2018 to 2022), the estimated cost of all required repairs would, on average, be  $\pounds966,883$  or  $\pounds193,377$  on an annualised basis. Again, the lower average annual spending on maintenance, repair and preservation compared to the 20p scenario means that the cost of all required repairs is also lower.

These historic houses also reported that they believed the after-tax income from an HMF (under this 0p scenario) could cover 43% of this annual repair requirement of  $\pounds193,377$ . In other words, these historic houses believe that their HMFs would generate  $\pounds83,456$  of annual income [ $\pounds193,377 \times 43\% = \pounds83,456$ ].<sup>32</sup> This is less than half the average annual income ( $\pounds186,667$ ) of current HMF holders, as implied by the survey data.

Assuming that these 874 historic houses could generate average annual income of  $\pounds83,456$ , the cost to the Exchequer in terms of **forgone tax revenue would be  $\pounds32.8\text{m}$**  [ $\pounds83,456 \times 874 \times 45\% = \pounds32.8\text{m}$ ].

### 2.1.4 Summary of costs

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<sup>31</sup> Given the yield of 2.8% reported on the survey existing HMF holders. This level of income would imply that these 686 historic houses have  $\pounds2.3\text{bn}$  in assets that could transfer to HMF, or  $\pounds3.4\text{m}$  per house. Investors and the general public, however, often overestimate the return they will receive from their investments. If these historic houses assumed they would earn an average yield of 5% then their cumulative asset base would be  $\pounds1.3\text{bn}$ , or  $\pounds1.9\text{m}$  per house.

<sup>32</sup> Given the yield of 2.8% reported on the survey existing HMF holders. This level of income would imply that these 874 historic houses have  $\pounds2.6\text{bn}$  in assets that could transfer to HMF, or  $\pounds3\text{m}$  per house. Investors and the general public, however, often overestimate the return they will receive from their investments. If these historic houses assumed they would earn an average yield of 5% then their cumulative asset base would be  $\pounds1.4\text{bn}$ , or  $\pounds1.7\text{m}$  per house.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

We estimate that, under a scenario in which the Income Tax rate applicable to HMFs was lowered from **45p to 20p**, the costs to the Exchequer in terms of foregone tax revenue would go **from £0 in 2018 to £14.7m in 2019, increasing to £23.1m in 2023** (Table 3).<sup>33</sup>

Under a scenario in which the Income Tax rate applicable to HMFs was lowered from **45p to 0p**, the costs to the Exchequer in terms of foregone tax revenue would go **from £0 in 2018 to £30.3m in 2019, increasing to £49.2m in 2023**.

*Table 3 Summary of costs to the Exchequer of implementing changes to the Income Tax rate applicable to HMFs*

	2018	2019	2020	2021	2022	2023
<b>45p → 20p</b>						
Static costs	0.0	6.3	6.3	6.3	6.3	6.3
Behavioural costs: HMF top-ups	0.0	0.3	0.5	0.5	0.6	0.6
Behavioural costs: New HMFs	0.0	8.1	12.2	14.2	15.2	16.2
<b>Total costs</b>	<b>0.0</b>	<b>14.7</b>	<b>18.9</b>	<b>21.0</b>	<b>22.1</b>	<b>23.1</b>
<b>45p → 0p</b>						
Static costs	0.0	11.3	11.3	11.3	11.3	11.3
Behavioural costs: HMF top-ups	0.0	2.6	3.9	4.5	4.8	5.1
Behavioural costs	0.0	16.4	24.6	28.7	30.8	32.8
<b>Total costs</b>	<b>0.0</b>	<b>30.3</b>	<b>39.7</b>	<b>44.5</b>	<b>46.9</b>	<b>49.2</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018)

Note: Figures may not sum to totals due to rounding.

## 2.2 Benefits

The following section analyses and quantifies the various economic benefits that are likely to accompany changes to the Income Tax rules applicable to HMFs.

We consider the following types of benefit:

- i. Increased expenditure on the maintenance, repair and preservation of historic houses
- ii. Increased tourism, including associated spending
- iii. Increased wellbeing for domestic visitors to historic houses.

We then provide a summary of the net benefits of the proposed changes.

### 2.2.1 Maintenance, repair and preservation of properties

As noted in Section 1.4.2, the Income Tax changes would motivate many properties to establish a HMF and thereby increase the after-tax income available for the maintenance, repair and preservation of historic houses.

<sup>33</sup> Whilst the survey did not collect information on the potential rate at which historic houses would establish new HMFs, following any Income Tax changes, for the purpose of the CBA we have assumed a gradual rate of HMF adoption and 100% adoption by 2023.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

Under the 20p scenario, 686 historic houses would be able to spend an additional £16.2m annually on maintenance, repair and preservation of their houses (Table 4). Under the 0p scenario, 874 historic houses would be able to spend an additional £32.8m annually on maintenance, repair and preservation of their houses.

The 686 historic houses that would likely establish a HMF under the 20p scenario reported that, on average (unweighted), they would spend 93% of the maintenance, repair and preservation expenditures on local suppliers (i.e. within 50 miles of their property). Local spending would therefore be £15.1m (Table 4).

The 874 historic houses that would likely establish a HMF under the 0p scenario also reported that, on average (unweighted), they would spend 93% of the maintenance, repair and preservation expenditures on local suppliers (i.e. within 50 miles of their property). Local spending would therefore be £30.5m.

*Table 4 Historic houses' additional spending on maintenance, repair and preservation, total and local*

	45p → 20p	45p → 0p
Total spending (£m)	16.2	32.8
Local spending share	93%	93%
<b>Local spending (£m)</b>	<b>15.1</b>	<b>30.5</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018)

Based on a regional profile of HH members (from the 2015 DCResearch member survey) and our own analysis of the regions of the UK for which the economy is currently operating under-capacity – and therefore has the potential to generate non-inflationary employment growth<sup>34</sup> – we estimated the portion of total local maintenance, repair and preservation expenditures that would likely be *additional* to the UK economy at this point in time. By only including the spending in “under-capacity regions” of the UK, we have effectively taken into account any economic displacement that might have occurred because of increased spending on maintenance, repair and preservation.<sup>35</sup>

Based on this approach, we estimate that 28.6% of historic houses' total maintenance, repair and preservation expenditures are likely to be additional to the local economy (Table 5). Therefore,

- Under the **20p scenario**, additional maintenance, repair and preservation expenditures would be **£4.3m** [ $£15.1m \times 28.6\% = £4.3m$ ].
- Under the **0p scenario**, additional maintenance, repair and preservation expenditures would be **£8.7m** [ $£30.5m \times 28.6\% = £8.7m$ ].

<sup>34</sup> In its [Economic and Fiscal Outlook: March 2018](#), the Office of Budget Responsibility (OBR) reports that UK-wide unemployment rate of 4.3% is commensurate with the national economy operating at full capacity. Therefore, a region was deemed to operating under-capacity if its current unemployment rate was above 4.3%.

<sup>35</sup> **Economic displacement** refers to the degree to which the expenditure and economic activity in a particular geographic jurisdiction is merely displacing employment and economic activity in other industries in that jurisdiction. In accordance with The Green Book guidance, economic displacement should be removed in order to estimate the additional economic impact.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

As noted in Section 2.1.4, for the purpose of the CBA we have assumed a gradual rate of HMF adoption with 100% adoption by 2023. This gradual adoption approach was also applied to historic houses' expenditures on maintenance, repair and preservation.

Nordicity's *MyEIA* economic impact model (based on the Office for National Statistics [ONS] input-output tables) was then used to convert historic houses' annual expenditures on maintenance, repair and preservation into estimates of total gross value added (GVA), which consists of direct-, indirect- and induced-impact gross value added (GVA) (Table 6).<sup>36</sup>

*Table 5 Estimate of portion of maintenance, repair and preservation expenditures that are likely to absorb spare economic capacity*

	Share of HH members 2015	Regional economy operating under-capacity-	Portion of HH members in regions operating at under economic capacity
East Midlands	7.3%	No	--
East of England	10.2%	No	--
Greater London	1.6%	Yes	1.6%
North East	5.0%	Yes	5.0%
North West	5.6%	No	--
South East	15.3%	No	--
South West	17.1%	No	--
West Midlands	9.6%	Yes	9.6%
Yorkshire & Humber	6.3%	Yes	6.3%
Northern Ireland	2.3%	No	--
Scotland	13.5%	No	--
Wales	6.1%	Yes	6.1%
Overseas	0.2%	No	--
<b>Total</b>	<b>100%</b>	<b>--</b>	<b>28.6%</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), Office for Budget Responsibility and ONS

*Table 6 Annual total GVA impact of expenditures on maintenance, repair and preservation (£m)*

	2018	2019	2020	2021	2022	2023
<b>45p → 20p</b>						
Maintenance, repair and preservation expenditures	0.0	2.2	3.2	3.8	4.0	4.3
Total GVA <sup>1</sup>	0.0	2.2	3.3	3.8	4.1	4.4
<b>45p → 0p</b>						
Maintenance, repair and preservation expenditures	0.0	4.4	6.5	7.6	8.2	8.7

<sup>36</sup> **Direct-impact GVA** includes the GVA generated directly within the repair and construction industry. **Indirect-impact GVA** includes the GVA generated within industries that supply inputs to the repair and construction industry, e.g. the manufacture of timber products. **Induced-impact GVA** includes the GVA generated across all industries within the UK economy on account of the re-spending of wages by workers employed on account of the direct and indirect impacts. The sum of the indirect- and induced-impact GVA is often referred to as the multiplier effects GVA.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

Total GVA <sup>1</sup>	0.0	4.4	6.7	7.8	8.3	8.9
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Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCRResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014) and ONS.

Notes:

Figures may not sum to totals due to rounding.

1. Includes direct-, indirect- and induced-impact GVA.

### 2.2.2 Tourism

#### Total number of additional visitors: houses with a HMF

Survey research conducted by DCRResearch in 2015 indicated that 55% of historic houses (901 houses) owned by HH members were open to the public in 2017. Of these publicly accessible locations, historic houses (as opposed to historic gardens or parks) were open for an average of 102 days per year. This implies that the average number of daily visitors to each property was 283 [ $26m \div 102 \text{ days} \div 901 \text{ houses} = 283$ ].

Fifteen per cent of the 134 historic houses that currently have a HMF, or an estimated 20 properties, reported that Income Tax changes would permit them to increase the number of days that they were open to the public. These properties reported that they would, on average, open for 35 more days per year.

These changes in public access translate into 700 additional days of public access [ $20 \times 35 = 700$ ]. If we assume that the average rate of daily visitors (283 per day per house) could be maintained across these 700 additional days, then the annual number of visits to historic houses would increase by 198,100 [ $700 \times 283 = 198,100$ ]. However, we believe it is more reasonable to assume that the average rate of daily visitors will be lower than 283 for these additional days.

We assume, in general, that historic houses that are currently open to the public do so on days and at times of the year that maximise visitors. At the margin, therefore, any additional days open to the public are more likely to be on days and during months when the potential for additional visitors is necessarily lower.

Whilst data on the daily and seasonal variations in visitation rates for historic houses (or heritage sites) was not available to us from the online survey or the desk research, we examined monthly data on international tourists to the UK to develop a proxy for the marginal rate of additional visitors.

According to statistics published by VisitBritain from ONS's International Passenger Survey, between 2011 and 2016, the average monthly number of holiday tourists arriving in the UK in the May-to-August period was 1,462,000.<sup>37</sup> Outside of this four-month peak holiday period, the average monthly number of inward tourists was 893,000. In other words, outside of the peak summer period, holiday tourism was approximately 60% of its level during the peak summer period. **For this reason, our analysis assumes that the average rate of daily visits is 170 per day per house, or approximately 60% of the overall average of 283 visitors per day per house.**

Based on this lower rate of daily visitors, **under the 20p scenario, the annual number of visits to historic houses would increase by 119,000** [ $700 \times 170 = 119,000$ ].

<sup>37</sup> VisitBritain (2018), [Monthly Inbound Update: October 2017](#), 23<sup>rd</sup> January 2018, p. 14.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

### Total number of additional visitors: houses that would establish a HMF

Twenty-seven per cent of the estimated 686 historic houses that would likely establish a HMF if the rate of Income Tax was lowered to 20p reported that the additional maintenance, repair and preservation would permit them to increase the number of days that they are open to the public. These properties reported that they would open for approximately 20 more days per year on average.

When these survey results are applied across the 686 houses that would establish an HMF (if the Income Tax rate was lowered from 45p to 20p) we find that 185 houses [27% x 686 = 185] would increase access in the order of 3,700 days annually [185 x 20 days = 3,700 days], and thereby likely attract **629,000 additional visitors** [3,700 days x 170 visitors per day= 629,000 visitors].

Twenty-four per cent of the estimated 874 historic houses that would likely establish a HMF if the rate of Income Tax was lowered to 0p reported that the additional maintenance, repair and preservation would permit them to increase the number of days that they are open to the public. These houses reported that they would open for approximately 20 more days per year.

When these survey results are applied across the 874 houses that would establish an HMF (if the Income Tax rate was lowered from 45p to 0p) we find that 210 houses [24% x 874 = 210] would increase access in the order of 4,200 days annually [210 x 20 days = 4,200 days], and thereby, likely attract **714,000 additional visitors** [4,200 days x 170 visitors per day = 714,000].

### Total number of additional visitors: summary

Combining the estimates of the number of additional visitors to houses currently with a HMF (119,000) and those would establish a HMF, we find that under the **20p scenario**, the total number of additional visitors would be **748,000**. Under the **0p scenario**, the total would be **833,000** (Table 7).

### Geographic origin of visitors

As noted in Section 1.4.1, 13% of annual visitors to historic houses are international tourists, the remaining 87% are domestic (i.e. from within the UK). Survey research conducted by DCResearch in 2015 indicated that 15% of domestic visitors were overnight domestic tourists, while the balance were daytrip visitors.<sup>38</sup> Table 7 provides a breakdown of the total number of additional visitors to historic houses based on geographic origin.

Table 7 Geographic origin of visitors

	45p → 20p	45p → 0p
<b>Annual number of visitors</b>		
Houses with a HMF	119,000	119,000
Houses that would establish a HMF	629,000	714,000
<b>Total</b>	<b>748,000</b>	<b>833,000</b>
<i>Of the total...</i>		
International visitors	97,240	109,590

<sup>38</sup> DCResearch (2015), p. 35.

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Domestic visitors	96,612	108,882
Domestic visitors	554,148	624,528

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018) and DCResearch (2017, p. 35)

### Tourism spending

According to VisitBritain, inward tourists to Britain spent an average of £599 per visit in 2016.<sup>39</sup> Each visit was an average of 7.4 days. Domestic overnight visitors spent an average of £193 per trip in 2016.<sup>40</sup> Domestic daytrip visitors spent an average of £35 per trip (including tourists who spent £0).<sup>41</sup> Based on these averages:

- Under the **20p scenario**, the additional visitors to historic houses are likely to spend a total of **£96.3m** on their travel within the UK (Table 8). International visitors would account for £58.2m, or 60% of this total travel spending.
- Under the **0p scenario**, the additional visitors are likely to spend **£108.5m**. International visitors would account for £64m, or 60% of this total travel spending.

VisitEngland's model for total trip spending to individual tourism activities, "[The Value of Activities for Tourism](#)", was used to convert total spending to an amount that could be attributed to the visit to an historic house. This model is based on survey research of the importance that domestic overnight and daytrip tourists place on different activities, and the average number of activities that domestic tourists participate in on a single trip.

- Under the **20p scenario**, spending attributable to visits to historic houses would be **£18.7m**.
- Under the **0p scenario**, attributable spending would be **£21.1m**.

*Table 8 Attributable tourism spending generated by Income Tax changes (£m)*

	45p → 20p		45p → 0p	
	Gross spending	Attributable spending	Gross spending	Attributable spending
International visitors	58.2	7.8	65.6	8.8
Domestic overnight visitors	18.6	2.5	21.0	2.8
Domestic daytrip visitors	19.4	8.4	21.9	9.4
<b>Total</b>	<b>96.3</b>	<b>18.7</b>	<b>108.5</b>	<b>21.1</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37) and Kantar-TNS (2016a, p. 20).

Note: Figures may not sum to totals due to rounding.

Whilst spending by international visitors is 100% *additional* to the UK economy, only a portion of spending by domestic tourists may be considered additional. For domestic tourism, only the

<sup>39</sup> VisitBritain (2017), "[2016 Snapshot](#)".

<sup>40</sup> Kantar-TNS (2016a), p. 37.

<sup>41</sup> Kantar-TNS (2016b), p. 20.

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portion of spending associated with *retained* tourists – i.e. tourists who chose to vacation in the UK when they could have travelled abroad – may be considered additional.

According to survey research conducted by Barclays Bank, approximately 33% of British adults chose to holiday in the UK “through personal preference rather than limitations around cost”.<sup>42</sup> This tourist retention rate was applied to attributable tourism spending in Table 8 to estimate the additional tourism spending associated with domestic tourists – i.e. estimate retained tourists’ spending.

Table 9 summarises the application of this additionality rate to the estimates of attributable spending.

- Under the **20p scenario**, the **additional** tourism spending would be an estimated **£11.4m**.
- Under the **0p scenario**, the **additional** tourism spending would be an estimated **£12.9m**.

*Table 9 Additional tourism spending generated by Income Tax changes*

	45p → 20p			45p → 0p		
	Attributable spending (£m)	Additionality rate	Additional spending (£m)	Attributable spending (£m)	Additionality rate	Additional spending (£m)
International visitors	7.8	100%	7.8	8.8	100%	8.8
Domestic overnight visitors	2.5	33%	0.8	2.8	33%	0.9
Domestic daytrip visitors	8.4	33%	2.8	9.4	33%	3.1
<b>Total</b>	<b>18.7</b>	--	<b>11.4</b>	<b>21.1</b>	--	<b>12.9</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3).

Note: Figures may not sum to totals due to rounding.

As noted in Section 2.1.4, for the purpose of the CBA we have assumed a gradual rate of HMF adoption with 100% adoption by 2023. This gradual adoption approach was also applied to the tourism spending stimulated by historic houses’ investments and additional days open to the public.

Data from ONS’s Tourism Satellite Accounts and Nordicity’s *MyEIA* economic impact model (based on the ONS’s input-output tables) was then used to remove the VAT applicable to additional tourist spending and convert the net spending (i.e. net of VAT) into estimates of total GVA, which consists of direct-, indirect- and induced-impact GVA (Table 10).

<sup>42</sup> Barclays (2017), [Destination UK: Driving growth in the UK hospitality sector](#), p. 3.

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Table 10 Annual total GVA impact of additional tourism spending (£m)

	2018	2019	2020	2021	2022	2023
<b>45p → 20p</b>						
Total tourism spending	0.0	5.7	8.6	10.0	10.7	11.4
VAT <sup>1</sup>	0.0	(0.7)	(1.0)	(1.2)	(1.3)	(1.3)
Net tourism spending	0.0	5.0	7.6	8.8	9.5	10.1
Total GVA impact	0.0	5.1	7.6	8.9	9.6	10.2
<b>45p → 0p</b>						
Total tourism spending	0.0	6.4	9.7	11.3	12.1	12.9
VAT <sup>1</sup>	0.0	(0.8)	(1.1)	(1.3)	(1.4)	(1.5)
Net tourism spending	0.0	5.7	8.5	10.0	10.7	11.4
Total GVA impact	0.0	5.7	8.6	10.1	10.8	11.5

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCRResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014) and ONS.

Notes:

Figures may not sum to totals due to rounding.

1. The implied effective rate of VAT on tourism spending is less than the standard 20% rate due to the significant share of tourism spending on zero-rated transport services.

### 2.2.3 Wellbeing

Heritage assets such as historic houses also generate economic benefits by increasing the wellbeing of UK residents. Indeed, according to HM Treasury's Green Book, wellbeing benefits – such as those generated by heritage assets, the natural environment or health policies – represent one of the key components of any approach to the appraisal of government policy to support those assets – i.e. through a CBA.

*Economic appraisal is based on the principles of welfare economics – that is, how the government can improve social welfare or **wellbeing**, referred to in the Green Book as social value [emphasis added].<sup>43</sup>*

Of course, unlike many other types of benefits incorporated in a CBA, wellbeing is not something that is traded in the marketplace, and therefore, cannot be readily quantified in monetary terms by observing market prices, and thereby, compared to the monetary costs of government policy. For such non-monetisable benefits (or costs), HM Treasury's Green Book recommends the use of a variety of well-established estimation techniques.<sup>44</sup> These estimation techniques include (i) revealed preference models, (ii) stated preference models (i.e. willingness to pay or willingness to accept models) and (iii) subjective wellbeing models.<sup>45</sup> These subjective wellbeing models typically data from surveys to drive monetary estimates of wellbeing.<sup>46</sup>

<sup>43</sup> HM Treasury (2018), [The Green Book: Central Government Guidance on Evaluation and Appraisal](#), p. 5.

<sup>44</sup> HM Treasury (2018), pp. 40-41.

<sup>45</sup> HM Treasury (2018), p. 41.

<sup>46</sup> HM Treasury (2018), pp. 41-42.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

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In their 2014 study, *Heritage and Wellbeing*, Daniel Fujiwara, Thomas Cornwall and Paul Dolan found that, on average, each person in the UK places a compensatory value of £1,342 for 3.4 annual visits to historic buildings.<sup>47</sup> In other words, the authors conclude that one would have to take away £394.71 per visit from someone who desires to visit a heritage site in order to restore them to the level of wellbeing they would experience had they not made that visit to a heritage site.<sup>48</sup>

Fujiwara et al.'s estimate of the compensatory value is analogous to an estimate of the willingness to pay (WTP) for the use of (i.e. visit to) heritage buildings.<sup>49</sup> Fujiwara et. al also note that compensatory value is "the most widely used measure of value in CBA" and that their study "provides figures that can be used directly in CBA."<sup>50</sup>

Fujiwara et al. also note that due to the statistical techniques used to derive the estimate of £1,342 (for 3.4 annual visits), it should be viewed as an upper-bound estimate of the compensating surplus associated with visits to heritage buildings.<sup>51</sup>

Consumer price inflation between 2013 and 2017 implies that the average per visit value of £394.71 has grown to £416.41.

Based on this estimate of the average annual value placed on a visit to a heritage site, we estimate that the wellbeing value in monetary terms of the additional visits to historic houses would be (Table 11):

- **£89.4m** under the **20p scenario**, and
- **£100.8m** under the **0p scenario**.<sup>52</sup>

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<sup>47</sup> Daniel Fujiwara, Thomas Cornwall and Paul Dolan (2014), [Heritage and Wellbeing](#), p. 6.

<sup>48</sup> Daniel Fujiwara et al. (2014), p. 6.

<sup>49</sup> Daniel Fujiwara et al. (2014), p. 13.

<sup>50</sup> Daniel Fujiwara et al. (2014), pp. 13, 26.

<sup>51</sup> Daniel Fujiwara et al. (2014), p. 5.

<sup>52</sup> Visits by international tourists are excluded from the analysis, since the wellbeing of non-UK residents is not directly beneficial to the UK's economy or society.

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Table 11 Wellbeing value of additional visits to historic properties

45p → 20p				
	Number of additional visits [A]	Addition-ality rate [B]	Average wellbeing value per visit [C]	Total wellbeing value of additional visits [D = A x B x C]
Domestic overnight visitors	96,612	33%	416.41	13.3
Domestic daytrip visitors	554,148	33%	416.41	76.1
<b>Total</b>	<b>650,760</b>	<b>--</b>	<b>--</b>	<b>89.4</b>
45p → 0p				
	Number of additional visits [A]	Addition-ality rate [B]	Average and wellbeing value per visit [C]	Total and wellbeing value of additional visits [D = A x B x C]
Domestic overnight visitors	108,882	33%	416.41	15.0
Domestic daytrip visitors	624,528	33%	416.41	85.8
<b>Total</b>	<b>733,410</b>	<b>--</b>	<b>--</b>	<b>100.8</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCRResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014) and ONS.

It is important to note that the application of the average per-visit wellbeing value (derived by Fujiwara et al.) to the estimated number of additional domestic visits estimates what is referred to as the “use value” of historic houses and excludes the “non-use value”.<sup>53</sup> The “non-use value” refers to value placed on historic houses (or any cultural, heritage or environmental asset) by the portion of the population that does not actually visit historic houses or plans to visit in the future.<sup>54</sup> According to prevailing economic theory, even the portion of the population that does not actually use or plan to use historic houses will put a wellbeing value on them because they wish to preserve these sites for use by other members of the current population or by future generations.<sup>55</sup>

### 2.2.4 Exchequer revenue

The additional economic activity associated with historic houses’ expenditures on maintenance, repair and preservation, and tourism also generates additional revenue for the Exchequer in the form of VAT, Income Tax, National Insurance Contributions (NIC), Corporation Tax and Council Tax. Table 12 summarises the estimated impact on Exchequer revenue.

- Under the **20p scenario**, tax revenue increases from an estimated **£2.3m in 2019** to **£4.6m in 2023**.

<sup>53</sup> Daniel Fujiwara et al. (2014), p. 20.

<sup>54</sup> Daniel Fujiwara et al. (2014), p. 20; Organisation for Economic Cooperation and Development (2006), [Cost-Benefit Analysis and the Environment: Recent Developments](#), p. 19.

<sup>55</sup> Daniel Fujiwara et al. (2014), p. 20.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

- Under the **0p scenario**, tax revenue increases from an estimated **£3m in 2019 to £6.1m in 2023**.

In both scenarios, this additional Exchequer revenue will partially offset the costs to the Exchequer (presented in Section 2.1).

*Table 12 Additional Exchequer revenue (£m)*

	2018	2019	2020	2021	2022	2023
<b>45p → 20p</b>						
Tax <sup>1</sup> generated by maintenance, repair and preservation expenditures	0.0	0.5	0.7	0.8	0.9	0.9
VAT on tourism spending <sup>2</sup>	0.0	0.7	1.0	1.2	1.3	1.3
Other tax <sup>1</sup> generated by tourism spending	0.0	1.2	1.8	2.1	2.2	2.4
<b>Total tax revenue</b>	<b>0.0</b>	<b>2.3</b>	<b>3.5</b>	<b>4.1</b>	<b>4.4</b>	<b>4.6</b>
<b>45p → 0p</b>						
Tax <sup>1</sup> generated by maintenance, repair and preservation expenditures	0.0	1.0	1.4	1.7	1.8	1.9
VAT on tourism spending <sup>2</sup>	0.0	0.8	1.1	1.3	1.4	1.5
Other tax <sup>1</sup> generated by tourism spending	0.0	1.3	2.0	2.3	2.5	2.7
<b>Total tax revenue</b>	<b>0.0</b>	<b>3.0</b>	<b>4.6</b>	<b>5.3</b>	<b>5.7</b>	<b>6.1</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), ONS and HMRC.

Notes:

Figures may not sum to totals due to rounding.

1. Includes estimates of Income Tax, National Insurance Contributions (employee and employer), Corporation Tax, Council Tax and VAT on workers' consumer spending.

2. The implied effective rate of VAT on tourism spending is less than the standard 20% rate due to the significant share of tourism spending on zero-rated transport services.

### 2.2.5 Summary of benefits

Table 8 provides a summary of the economic benefits of changes to Income Taxes applicable to HMFs.

- Under the **20p scenario**, total annual economic benefits increase from **£54.3m in 2019 to £108.7m in 2023**.
- Under the **0p scenario**, total annual economic benefits increase from **£63.6m in 2019 to £127.2m in 2023**.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

Table 13 Summary of economic benefits (£m)

	2018	2019	2020	2021	2022	2023
<b>45p → 20p</b>						
Maintenance, repair and preservation expenditures	0.0	2.2	3.3	3.8	4.1	4.4
Tourism	0.0	5.1	7.6	8.9	9.6	10.2
Wellbeing	0.0	44.7	67.1	78.2	83.8	89.4
Exchequer revenue	0.0	2.3	3.5	4.1	4.4	4.6
<b>Total benefits</b>	<b>0.0</b>	<b>54.3</b>	<b>81.5</b>	<b>95.1</b>	<b>101.9</b>	<b>108.7</b>
<b>45p → 0p</b>						
Maintenance, repair and preservation expenditures	0.0	4.4	6.7	7.8	8.3	8.9
Tourism	0.0	5.7	8.6	10.1	10.8	11.5
Wellbeing	0.0	50.4	75.6	88.2	94.5	100.8
Exchequer revenue	0.0	3.0	4.6	5.3	5.7	6.1
<b>Total benefits</b>	<b>0.0</b>	<b>63.6</b>	<b>95.4</b>	<b>111.3</b>	<b>119.3</b>	<b>127.2</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), ONS and HMRC.

Note: Figures may not sum to totals due to rounding.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

### 2.3 Net economic benefit

Table 14 summarises the calculation of the net economic benefit (NEB) of lowering the tax rate on HMF income from **45p to 20p**. Under this scenario, the **NEB increases from £39.6m in 2019 to £85.5m in 2023**. Most of the NEB is due to the monetary value of the additional effect on domestic visitors' wellbeing.

Table 14 Net economic benefit, 45p → 20p scenario (£m)

	2018	2019	2020	2021	2022	2023
<b>Costs</b>						
Static costs	0	6.3	6.3	6.3	6.3	6.3
Behavioural costs: HMF top-ups	0	0.3	0.5	0.5	0.6	0.6
Behavioural costs: New HMFs	0	8.1	12.2	14.2	15.2	16.2
<b>Total costs</b>	<b>0.0</b>	<b>14.7</b>	<b>18.9</b>	<b>21.0</b>	<b>22.1</b>	<b>23.1</b>
<b>Benefits</b>						
Maintenance, repair and preservation expenditures	0	2.2	3.3	3.8	4.1	4.4
Tourism	0	5.1	7.6	8.9	9.6	10.2
Wellbeing	0	44.7	67.1	78.2	83.8	89.4
Exchequer revenue		2.3	3.5	4.1	4.4	4.6
<b>Total benefits</b>	<b>0</b>	<b>54.3</b>	<b>81.5</b>	<b>95.1</b>	<b>101.9</b>	<b>108.7</b>
<b>Net benefit/(cost)</b>	<b>0</b>	<b>39.6</b>	<b>62.6</b>	<b>74.1</b>	<b>79.8</b>	<b>85.5</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), ONS and HMRC.

Note: Figures may not sum to totals due to rounding.

Table 15 summarises the calculation of the NEB of lowering the tax rate on HMF income from **45p to 0p**. Under this scenario, the NEB increases from **£33.4m in 2019 to £78m in 2023**. Most of the NEB is due to the monetary value of the additional effect on domestic visitors' wellbeing.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

Table 15 Net economic benefit, 45p → 0p scenario (£m)

	2018	2019	2020	2021	2022	2023
<b>Costs</b>						
Static costs	0	11.3	11.3	11.3	11.3	11.3
Behavioural costs: HMF top-ups	0	2.6	3.9	4.5	4.8	5.1
Behavioural costs: New HMFs	0	16.4	24.6	28.7	30.8	32.8
<b>Total costs</b>	<b>0.0</b>	<b>30.3</b>	<b>39.7</b>	<b>44.5</b>	<b>46.9</b>	<b>49.2</b>
<b>Benefits</b>						
Maintenance, repair and preservation expenditures	0	4.4	6.7	7.8	8.3	8.9
Tourism	0	5.7	8.6	10.1	10.8	11.5
Wellbeing	0	50.4	75.6	88.2	94.5	100.8
Exchequer revenue	0	3.0	4.6	5.3	5.7	6.1
<b>Total benefits</b>	<b>0</b>	<b>63.6</b>	<b>95.4</b>	<b>111.3</b>	<b>119.3</b>	<b>127.2</b>
<b>Net benefit/(cost)</b>	<b>0</b>	<b>33.4</b>	<b>55.7</b>	<b>66.8</b>	<b>72.4</b>	<b>78.0</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), ONS and HMRC.

Note: Figures may not sum to totals due to rounding.

## Changes to the tax treatment of heritage maintenance funds: a cost benefit analysis

### 3. Capital Gains Tax relief

In Section 2, we examined the economic costs and benefits of changes to the rate of Income Tax applicable to income generated by HMFs. In this section, we separately examine the economic costs and benefits of relief from CGT on HMF assets.

It will be in view that, if HMF trustees sell an asset, whether to facilitate reinvestment or maintenance, repair or preservation, the HMF will be depleted by the amount of CGT payable. The chargeable gain might comprise not only the gain accrued since the asset became part of the HMF but also any gains held over en route. This seems contrary to the Government's policy to foster the national heritage.

#### 3.1 Costs

Based on the data collected through the online survey, we estimate that houses that currently hold assets in a HMF paid an average of £4,163 in CGT in 2017. After taking into account the Annual Exempt Amount (AEA) for trustees of £5,650<sup>56</sup> and CGT rate of 28% for trustees, this average level of CGT implies average chargeable gains of £20,519 per house. When summed across all houses currently holding assets in a HMF, we estimate that HMFs generated an estimated £2.7m in chargeable gains in 2017 and CGT of £558,000.

Table 16 Estimated chargeable gains and CGT for historic houses' HMFs (£m)

	Assets in HMFs	Chargeable gains (est.) <sup>1</sup>	Total CGT saved <sup>2</sup>
Current HMF holders	890.1	2.7	0.6
HMF top-ups	89.0	0.3	0.1
New HMFs 20p	2,317.7	14.1	2.9
New HMFs 0p (incremental)	287.3	3.9	0.8
<b>Total</b>	<b>3,584.1</b>	<b>21.0</b>	<b>4.3</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCRResearch (2017) and HMRC.

Notes:

Figures may not sum to totals due to rounding.

1. The survey results indicated that current holders of HMFs paid an average of £4,163 in CGT in 2017. Based on a CGT allowance for trustees of £5,650 and CGT rate of 28% for trustees, this average level of CGT implies average chargeable gains of £20,519 per house. Total chargeable gains are estimated by multiplying the average capital gains per house (£20,519) by the number of houses currently holding a HMF (134), that would establish a HMF with a 20p Income Tax rate (686) and that would only establish a HMF if the Income Tax rate was reduced to 0p (188). The chargeable gains for top-ups to current HMFs is estimated at 10% of current HMFs' chargeable gains (see Section 2.1.3).

2. CGT saved (or foregone tax revenue) is estimated by multiplying the average CGT per house (£4,163) by the number of houses currently holding a HMF (134), that would establish a HMF with a 20p Income Tax rate (686) and that would only establish a HMF if the Income Tax rate was reduced to 0p (188). The CGT saved for top-ups to current HMFs is estimated at 10% of current HMFs' CGT saved (see Section 2.1.3).

We also used these averages to estimate the chargeable gains and CGT payable (and saved) in relation to top-ups to existing HMFs and the new HMFs that would be established under reduced rates of Income Tax. In total, we estimate that existing and new HMFs would generate annual

<sup>56</sup> The Annual Exempt Amount (AEA) for 2017-18 (£5,650) was used to estimate the chargeable gains in that tax year. For 2018-19, the AEA was increased to £5,850.

chargeable gains of £21m and CGT of £4.3m. In other words, the extension of CGT relief to HMFs would generate annual savings of £4.3m for historic houses. Historic houses could apply this tax savings to the repair, maintenance and preservation of historic houses. This saving also represents the foregone tax revenue associated with CGT relief.

We should note, however, that these estimates of the average annual chargeable gains represent a lower boundary and do not take into account the dynamic effects that would accompany CGT relief. The current lack of CGT relief for HMFs likely means that historic houses do not sell many of the assets – particularly long-held property – within their HMFs. The introduction of CGT relief would likely give HMF holders an increased incentive to sell property or financial assets within their HMFs, which have experienced significant gains. In this regard, the foregone tax revenue and the commensurate HMF monies available for maintenance, repair and preservation would be much higher than estimated in Table 16.

### 3.2 Net benefit

Whilst the survey did not collect benefits information directly related to the tax savings associated with CGT, we have estimated the benefits and the NEB in proportion to the pounds sterling of tax saved. In other words, the value of benefits per £1 of savings in tax in the 20p Income Tax scenario was used to extrapolate the benefits and net benefits that would accompany the savings in CGT under that scenario. A similar approach was used for the 0p scenario.

- For the scenario in which the HMF Income Tax rate is decreased from 45p to **20p**, the incremental NEB generated by CGT relief would increase from **£4.7m in 2019 to £12.8m in 2023** (Table 17).
- For the scenario in which the HMF Income Tax rate is decreased from 45p to **0p**, the incremental NEB generated by CGT relief would increase from **£2.3m in 2019 to £6.7m in 2023**.

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Table 17 Net economic benefit of CGT relief for HMFs (£m)

	2018	2019	2020	2021	2022	2023
<b>45p → 20p scenario</b>						
<b>Costs</b>						
Static costs	0	0.3	0.4	0.5	0.5	0.6
Behavioural costs: HMF top-ups	0	0.0	0.0	0.0	0.1	0.1
Behavioural costs: New HMFs	0	1.4	2.1	2.5	2.7	2.9
<b>Total costs</b>	<b>0.0</b>	<b>1.7</b>	<b>2.6</b>	<b>3.0</b>	<b>3.3</b>	<b>3.5</b>
<b>Benefits</b>						
Maintenance, repair and preservation expenditures	0	0.3	0.5	0.6	0.6	0.7
Tourism	0	0.6	1.1	1.3	1.4	1.5
Wellbeing	0	5.3	9.2	11.3	12.4	13.4
Exchequer revenue	0	0.3	0.5	0.6	0.6	0.7
<b>Total benefits</b>	<b>0</b>	<b>6.4</b>	<b>11.2</b>	<b>13.7</b>	<b>15.0</b>	<b>16.3</b>
<b>Net benefit/(cost)</b>	<b>0</b>	<b>4.7</b>	<b>8.6</b>	<b>10.7</b>	<b>11.8</b>	<b>12.8</b>
<b>45p → 0p scenario</b>						
<b>Costs</b>						
Static costs	0	0.3	0.4	0.5	0.5	0.6
Behavioural costs: HMF top-ups	0	0.0	0.0	0.0	0.1	0.1
Behavioural costs: New HMFs	0	1.8	2.7	3.2	3.4	3.6
<b>Total costs</b>	<b>0.0</b>	<b>2.1</b>	<b>3.2</b>	<b>3.7</b>	<b>4.0</b>	<b>4.3</b>
<b>Benefits</b>						
Maintenance, repair and preservation expenditures	0	0.3	0.5	0.6	0.7	0.8
Tourism	0	0.4	0.7	0.8	0.9	1.0
Wellbeing	0	3.5	6.1	7.4	8.0	8.7
Exchequer revenue		0.2	0.4	0.4	0.5	0.5
<b>Total benefits</b>	<b>0</b>	<b>4.5</b>	<b>7.7</b>	<b>9.3</b>	<b>10.1</b>	<b>11.0</b>
<b>Net benefit/(cost)</b>	<b>0</b>	<b>2.3</b>	<b>4.5</b>	<b>5.6</b>	<b>6.2</b>	<b>6.7</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCRResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), ONS and HMRC.

Note: Figures may not sum to totals due to rounding.

### 4. Do-nothing scenario

Thus far we have examined how changes to the tax treatment of income from HMFs could permit historic houses to increase their public access and annual number visitors, thereby, generating economic benefits for the UK. It is important to recognise that without any changes to the tax treatment of HMFs – which will allow more money to be spent on necessary maintenance, repairs and preservation – over time, public access to historic houses may erode, and this could result in lower levels of economic benefits than are currently realised.

This erosion in public access can arise in a number of ways:

- With limited after-tax income available to meet the costs of required maintenance, repair and preservation, owners of historic houses would likely have to schedule more commercial use of their houses for film and television filming, photography or private functions; thereby, potentially curtailing the number of days that the house is open to the public.
- Financial resources would have to be diverted from expenditure on the revenue costs associated with public openings (e.g. tour guides) in order to cover the costs of required maintenance, repair and preservation; thereby, leading to a reduction in the number of days open to the public.
- Historic-house owners would lack the additional funds to make improvements to their houses required to accommodate the accessibility needs of an aging population. Given that older age groups are over-represented among visitors to historic houses (see Section 1.4.2), this could lead to a decrease in the annual number of visits.

According to the online survey, 21% of historic houses that currently have a HMF reported that they would likely reduce the number of days per year that they are open to the public, if there were no changes to the current tax treatment of HMFs. Across these historic houses, the average reduction in the annual number of open days was 28.

These survey results imply that the status quo could ultimately result in 788 fewer days open to the public [ $134 \times 21\% \times 28 = 788$ ]. Based on the average of 283 visitors per day across all historic houses (see Section 2.2.2), these 788 fewer days translate into 223,004 fewer annual visits [ $788 \times 283 = 223,004$ ] and a loss of £28.7m in tourism spend.

Our analysis in Section 2.2.2 indicates that each £1 of tourism spending generates 89p in total GVA, 11.5p in VAT and 20.8p in other tax revenue. Therefore, the loss of £28.7m in tourism spending would ultimately cost the UK economy £25.5m in annual GVA [ $£28.7m \times 0.89 = £25.5m$ ], and would cost the Exchequer £3.3m in foregone VAT (on tourism spending) [ $£28.7m \times 0.115 = £3.3m$ ] and £6m in other foregone tax revenue [ $£28.7m \times 0.208 = £6m$ ].

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### 5. Options appraisal

#### 5.1 HMF options

In the following section we summarise and compare the various tax reform options analysed in this report, including the 'do-nothing' option. Based on the cost and benefit outcomes estimated for 2023 (Table 18):

- A. A reduction of the Income Tax on HMF income from 45p to **20p** would generate an annualised NEB of **£85.5m**.
- B. The addition of **CGT relief** for HMF chargeable gains to the 20p Income Tax rate scenario (Scenario A) increases the annualised NEB to **£98.4m**.
- C. A reduction of the Income Tax on HMF income to **0p** would generate an annualised NEB of **£78m**. The NEB of Scenario C is lower than Scenario A because our survey research indicated that the number of additional public access days – and thereby visitors – increases at a slower rate than the forgone tax revenue. In other words, the houses that are only willing to adopt a HMF at a 0p Income Tax rate displayed a lower propensity to increase their public access days.
- D. The addition of **CGT relief** for HMF chargeable gains to the 0p Income Tax rate scenario (i.e. Scenario C) increases the annualised NEB to **£84.7m**.
- E. The '**do nothing**' scenario is expected to generate an annualised **net economic cost to the UK economy of £34.8m** by 2023.

Table 18 Summary of net economic benefit of tax reform options, 2023 outcomes (£m)

	A. 45p → 20p	B. 45p → 20p + CGT relief	C. 45p → 0p	D. 45p → 0p + CGT relief	E. Do nothing
Costs	23.1	26.6	49.2	53.5	9.3
Benefits	108.7	125.0	127.2	138.2	(25.5)
<b>Net benefit/(cost)</b>	<b>85.5</b>	<b>98.4</b>	<b>78.0</b>	<b>84.7</b>	<b>(34.8)</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), HMRC, ABS and ONS.

Note: Figures may not sum to totals due to rounding.

#### 5.2 Alternative option: charitable trust

Private owners of historic houses also have the option of transferring their houses and HMFs into charitable trusts, as an alternative means to reducing their tax burden and enhancing the after-tax income available for maintenance, repair and preservation. In fact, this statutory and fiscal regime is already in place to pursue this alternative option, and approximately 6% of HH members have done so.

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As charitable trusts, houses' HMFs would continue to be exempt from IHT, but would also be exempt from Income Tax and CGT. So, in this regard, it would be akin to Scenarios B and D.

The tax savings benefits would also extend beyond HMFs. Houses' trading profits would no longer be subject to Income Tax.<sup>57</sup> As well, any property or assets transferred to a charitable trust would no longer be subject to CGT. This would save 18%/28% CGT (less tax-free allowance) on any sales of residential property by the trust, and 10%/20% CGT (less tax-free allowance) on sales of any other chargeable assets.

Houses held within charitable trusts could also obtain relief of 80-100% on any Business Rates that they pay on the portions of their properties classified for domestic use. For example, when an individual leases an apartment on their property from the charitable trust, the individual pays Council Tax on the apartment. The remaining acreage of the house's property – used for charitable purposes – would be subject to Business Rates with 80-100% relief.<sup>58</sup>

Charitable trust status would also mean that houses could reclaim 25p of Gift Aid on the total entry fee charged to visitors, when those visitors provide a non-zero donation and make a Gift Aid declaration. They could also claim Gift Aid on any funding that private owners "donate" to charitable endowments established to cover maintenance, repair and preservation costs.

These various taxation benefits, however, need to be weighed against the extra expenses and lifestyle disruption that a private owner would incur when transferring their house into a charitable trust. To maintain the property as a family house, the occupier would normally have to lease back an apartment or portion of the house (as noted above) and pay a full market rent. For many private owners it would be difficult to countenance and perhaps fund having to pay rent on a house they own outright – especially if this market rent exceeds the maintenance costs.

Charitable trusts also require more governance (e.g. independent trustees, audited accounts) and normally an endowment to provide an income to meet costs. Furthermore, as noted above, if all the gross trading income money is spent on repairing the house, there would not, in fact, be any trading profits to shelter in the charitable trust.

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<sup>57</sup> Whilst we do not have data on the annual value of historic houses' trading profits, the fact that many historic houses struggle to cover their repair, maintenance and preservation costs out of income suggests that trading profits are very low. For that reason, the tax benefit would also low.

<sup>58</sup> Charities receive mandatory Business Rates relief of 80%. Local councils can provide up to an additional 20% in Business Rates relief at their discretionary.

### 6. Breakeven and sensitivity analyses

This CBA indicates that one of the most crucial factors in determining if a particular tax reform option delivers a positive net benefit is the degree to which it delivers wellbeing benefits for additional domestic visitors. For example, in the 20p scenario, wellbeing benefits accounted for £89.4m in 2023, or 86% of total benefits.

In this section, we model the minimum levels of wellbeing per visit that would be required to yield breakeven NEB outcomes for the various tax reform scenarios. On the basis of Fujiwara et al, this CBA has assumed that each domestic visit to a historic house generated wellbeing benefits equal to £416.41. However, as noted in Fujiwara et al., the statistical methods used to derive this per-visit figure imply that it should be viewed as the upper-bound for the value of the wellbeing effects.

With that in mind, in this section, we consider how far below this upper bound the per-visit wellbeing value could fall, whilst still providing a positive NEB. Table 19 provides the results of this breakeven simulation.

- For Scenarios A and B, we found that that the per-visit value of the wellbeing could fall to as low as £18.11 – or 96% under the under the upper bound – and still provide a positive NEB.
- For Scenarios C and D, the per-visit value of the wellbeing benefits could fall to £94.20 – or 77% under the upper bound – and still provide a positive NEB.

We also ran the breakeven simulation under a scenario where the economic contribution from domestic tourists' spending was deemed non-additional ("breakeven value – no domestic tourism effects").

- For Scenarios A and B, we found that that the per-visit value of the wellbeing could fall to as low as £38.41 – or 91% under the under the upper bound – and still provide a positive NEB.
- For Scenarios C and D, the per-visit value of the wellbeing benefits could fall to £114.50 – or 73% under the upper bound – and still provide a positive NEB.

*Table 19 Breakeven analysis of wellbeing value per visit*

	A. 45p → 20p	B. 45p → 20p + CGT relief	C. 45p → 0p	D. 45p → 0p + CGT relief
Baseline value - upper bound	416.41	416.41	416.41	416.41
Breakeven value	18.11	18.11	94.20	94.20
Breakeven value – no domestic tourism effects <sup>1</sup>	38.41	38.41	114.50	114.50

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), HMRC, ABS and ONS.

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This breakeven analysis demonstrates that the per-visit value of the wellbeing benefits need not be at or near the upper bound value estimated by Fujiwara et. al. And in fact, the per-visit value of the wellbeing benefits could be 73% under the upper bound and still yield a positive NEB.

### 7. Summary of key findings

There are currently an estimated 134 HMFs in existence in the UK, accounting for approximately 8% of historic houses in private ownership. Although the current tax treatment of income and capital gains generated HMFs stifles their adoption, our survey research indicates that there is strong underlying interest in HMFs, provided that the Government addresses their unfavourable tax treatment.

In particular, an online survey of HH members found that 42% of historic houses (or 46% of those historic houses currently without a HMF) would likely establish one if the tax rate applicable to HMF income was lowered from 45p to 20p. Furthermore, if the rate of Income Tax was lowered from 45p to 0p, 53% of historic houses (or 58% of those historic houses currently without a HMF) would likely establish a HMF.

According to the survey, 20% of historic houses (or 21% of those historic houses currently without a HMF) reported that they would be interested in establishing a HMF under a more favourable Income Tax regime, however, their survey responses indicated that they were unlikely to meet the public access obligations that would accompany a HMF. Only 19% of historic houses (or 21% of those historic houses currently without a HMF) reported that they would not establish a HMF even if the rate of Income Tax was lowered to 0p.

A reduction in the Income Tax rate applicable to HMF income would, of course, cost the Government in terms of foregone tax revenue. Holders of existing HMFs would pay less Income Tax. Our survey research indicates that they would also top-up the assets in their HMFs, thus generating even more after-tax income.

The lower rate of Income Tax – as evidence by the survey research – would also entice hundreds of owners of historic houses to establish new HMFs and move assets into those HMFs. This would increase the after-tax income for these historic houses (with a consequent reduction in Income Tax immediately payable to the Exchequer).

For both existing and new holders of HMFs, all of this additional after-tax income would be channelled into the maintenance, repair and preservation of historic houses. The statutes already provide that this income cannot be used for any non-heritage purpose. In many parts of the UK, this additional expenditure on maintenance, repair and preservation will generate additional economic benefits for regional economies – that is, the regions of the UK that are currently operating below their full economic capacity.

According to the survey research, these improvements in historic houses will allow them to increase the number of days they are open to the public, and thereby, increase their visitor numbers. Some of these additional visitors will be from outside the UK; some will be UK residents redirected from travelling outside the UK (i.e. retained domestic tourists). These additional visitors – international and retained domestic – will generate additional tourism spending in the UK – largely in the local towns surrounding historic houses – which will generate additional GVA, employment and tax revenue for the UK.

UK residents' enjoyment of historic houses also generates economic benefits by increasing their wellbeing. Research conducted by Fujiwara et al. found that, in 2013, on average, each person in

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the UK placed a compensatory value of £1,342 for 3.4 annual visits to historic buildings.<sup>59</sup> In other words, the authors conclude that one would have had to take away £394.71 per visit from someone who desired to visit a heritage site in order to restore them to the level of wellbeing they would have experienced had they not made that visit to a heritage site.<sup>60</sup> In 2017 currency, the value per visit was £416.41.

This CBA took into account these various costs and benefits to determine the NEB that would result from changes to the Income Tax rate applicable to HMFs under two scenarios: (i) a reduction of the Income Tax rate from 45p to 20p and (ii) a reduction in the Income Tax rate from 45p to 0p.

Table 20 summarises the NEB of lowering the tax rate on HMF income. Under the **45p to 20p** scenario, the **NEB increases from £39.6m in 2019 to £85.5m in 2023**. Under the **45p to 0p** scenario, the NEB increases from **£33.4m in 2019 to £78m in 2023**.

*Table 20 Summary of net economic benefit of changes to HMF Income Tax rate (£m)*

	2018	2019	2020	2021	2022	2023
<b>45p → 20p</b>						
Costs	0	(14.7)	(18.9)	(21.0)	(22.1)	(23.1)
Benefits	0	54.3	81.5	95.1	101.9	108.7
<b>Net benefit/(cost)</b>	<b>0</b>	<b>39.6</b>	<b>62.6</b>	<b>74.1</b>	<b>79.8</b>	<b>85.5</b>
<b>45p → 0p</b>						
Costs	0	(30.3)	(39.7)	(44.5)	(46.9)	(49.2)
Benefits	0	63.6	95.4	111.3	119.3	127.2
<b>Net benefit/(cost)</b>	<b>0</b>	<b>33.4</b>	<b>55.7</b>	<b>66.8</b>	<b>72.4</b>	<b>78.0</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014) and ONS.

Note: Figures may not sum to totals due to rounding.

In addition to this analysis of changes to the Income Tax rates applicable to HMFs, we also examined the net benefit of (i) providing CGT relief for HMFs and (ii) doing nothing. The results of this analysis (summarised in Table 21) demonstrate that the 20p scenario yields a higher net benefit than the 0p scenario, owing to limited additional public access (i.e. additional days open to the public) reported by houses under the 0p scenario.

<sup>59</sup> Daniel Fujiwara et al. (2014), p. 6.

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Table 21 Summary of net economic benefit of tax reform options, 2023 outcomes (£m)

	A. 45p → 20p	B. 45p → 20p + CGT relief	C. 45p → 0p	D. 45p → 0p + CGT relief	E. Do nothing
Costs	23.1	26.6	49.2	53.5	9.3
Benefits	108.7	125.0	127.2	138.2	(25.5)
<b>Net benefit/(cost)</b>	<b>85.5</b>	<b>98.4</b>	<b>78.0</b>	<b>84.7</b>	<b>(34.8)</b>

Source: Saffery Champness / Nordicity estimates based on data from online survey of HH members (2018), DCResearch (2017, p. 35), Kantar-TNS (2016a, p. 37), Kantar-TNS (2016a, p. 20), Barclays (2017, p. 3), Fujiwara et al. (2014), HMRC, ABS and ONS.

Note: Figures may not sum to totals due to rounding.

Under the 'do nothing' scenario, over time, public access to historic houses may erode, and this could result in lower levels of economic benefits than are currently realised. We estimate that the loss in tourism spending within the 'do nothing' scenario would ultimately cost the UK economy £34.8m by 2023.

Finally, recognising that our analysis is very sensitive to the value of wellbeing benefits and that the values used represent the upper bound, we conducted a breakeven analysis to determine how far below the upper bound the value of wellbeing benefits could fall and still yield a positive NEB for the UK. This breakeven analysis showed that the per-visit value of wellbeing benefits could be 73-96% below the upper bound of (£416.41) and still yield a positive NEB.

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