



## Reduction in Construction VAT to 5 per cent

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Small firms have identified the VAT rate on renovating homes as a concern, as it prevents potential customers from hiring their services in new building projects. The FSB is working with the Federation of Master Builders on a campaign calling for the VAT rate to be lowered to a flat rate of five per cent to give homeowners the incentive to spend and give a boost to the builders and small firms in the construction industry at an already difficult time.

A survey of FSB members in the construction sector, showed that 59 per cent of respondents said their trade had decreased in the last six months and that 37 per cent were concerned their financial prospects for the future were poor.

On 10th March 2009 the council of European Finance Ministers (Ecofin) Council announced that it would allow EU Member States to permanently reduce VAT to five per cent. The FSB is now calling on the Government to make the most of this opportunity. Reducing the VAT on domestic building work will also have the following benefits:

- It would reduce significantly the commercial advantage of the VAT evading trader. The financial incentive to choose a rogue will diminish and a level playing field will emerge instead.
- One of the ways in which the Government has tried to tackle the housing crisis is by completely exempting the construction of new housing from VAT. The FSB supports this move but believes that it can provide an incentive to build on greenbelt land need to reword this because if you read and re-read it sounds like we might be in favour of building on green belt because it is more cost effective than renovating existing property.
- The most cost-effective way of increasing the energy efficiency of buildings is when they undergo major renovation. Currently the VAT rates are heavily weighted in favour of demolition and new build as opposed to refurbishment - zero percent VAT on new homes but 17.5% on the renovation and repair of existing homes this doesn't make sense. While it is relatively easy to build zero-carbon homes, it is harder to retrofit the existing housing stock. Homes contribute 27 per cent of the UK's total carbon emissions but existing grants and long pay back periods offer little incentive for householders to make their homes more energy efficient.

The construction industry accounts for around 10 per cent of Britain's Gross Domestic Product; it is vital to the economy that it is supported through the slump and the recovery via a cut in VAT.

#### Small Business Stats

- **There are 4.8 million small businesses in the UK**
- **97 per cent of firms employ fewer than 20 people**
- **95 per cent employ fewer than five people**
- **Over 500,000 people start up their own business every year**
- **13.5 million people work in small firms**
- **Small firms contribute more than 50 per cent of the UK turnover**

#### For further information

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