A Review of Fiscal Measures to Benefit Heritage Conservation

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A review of fiscal measures to benefit heritage conservation

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A review of fiscal measures to benefit heritage conservation

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A review of fiscal measures to benefit heritage conservation

Rob Pickard (Northumbria University, UK) and Tracy Pickerill (Dublin Institute of Technology, Republic of Ireland)

Abstract

Because resources are limited, transnational and national government funding (including funding from international organisations, central government, and regional and local authorities) is becoming increasingly inadequate to meet the need of heritage conservation and promotion. Considering the fact that public funds from central, regional and local authorities are not sufficient to meet the needs of conservation of the built heritage in Europe, a Council of Europe Recommendation (1991) and a subsequent Report (2003) have given weight to the idea of encouraging the private sector to invest in the architectural heritage through the provision of tax incentives.

It is therefore necessary to find ways to extend financial responsibility for the architectural heritage beyond the State without diminishing protection of the heritage or absolving governments from their responsibility to ensure such protection. The private sector plays an important role in heritage conservation in terms of corporate sponsorship and contributions from foundations and private individuals. On the basis that conservation of the architectural heritage is of cultural, economic and social importance, both nationally and internationally, the necessity of identifying paths of fiscal incentive to encourage the private sector to engage in heritage conservation activity is paramount.

In the context of relieving the financial burden on the state and encouraging private investment in heritage conservation, the design features and operating characteristics of various indirect heritage conservation fiscal incentives in Western Europe (Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Spain and the UK) and North America (USA and Canada) are examined.

Fiscal incentives designed to encourage private investment in heritage conservation activity include relief from income and corporation tax, property tax, value-added (sales) tax, inheritance, gift and capital gains tax. Other forms of tax incentive can also apply to donations and sponsorship relating to the activities of non-government organisations such as non-profit heritage trusts and foundations. The choice and form of tax incentives is influenced by political traditions in different countries and the development of collaborative public/private partnership arrangements involving heritage trusts, foundations, limited liability companies and local communities.

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Executive Summary

Threats to the survival of architectural heritage resources change over time depending on the extent of economic development within countries, ranging from demolition by neglect to demolition to make way for new development. The way that different countries choose to deal with this threat is dependent on their particular political and economic context.

Funding mechanisms for the conservation of the architectural heritage may be categorised into direct and indirect tools of government action. A direct incentive, such as grant aid, involves a government body directly transferring money to private owners to finance (or part finance) a conservation activity. An indirect incentive, such as a tax incentive, does not involve a direct transfer of money and no state expenditure is recorded.

This paper concentrates on the main forms of indirect funding incentives within the context of encouraging the flow of private investment funds towards heritage conservation activity:
- Income tax deductions and credits for costs incurred in heritage conservation activity;
- Income tax credits for the provision of social housing in heritage buildings;
- Property tax exemption, abatement or freeze for heritage buildings;
- Value added (sales) tax concessions or rebates relating to heritage conservation activity;
- Use of tax systems to provide an incentive to donations and corporate sponsorship activity through the establishment of heritage trusts and foundations;
- Inheritance, gift and capital gains tax exemptions and concessions.

This paper examines each of these incentives in specific sections in relation to practice in Western Europe (Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Spain and the United Kingdom) and North America (Canada and USA) with a summary chart at the end of each section.

The findings of this research may be summarised as follows:

**Income tax deductions and credits**

With the exception of the United Kingdom and Canada, all countries examined allow the cost of repairs and maintenance to protected heritage structures to be offset against income tax deductions, although regulations relating to quality of work and public access requirements vary greatly from country to country. Some countries allow additional expenses such as acquisition costs, management expenses for rented property, public liability insurance and alarm installation to be offset against income tax.

Improvements such as the provision of modern utilities are only deductible in Germany and the Netherlands. The proactive policy operated by the Danish Historic Houses Owners Association (BYFO) encompassing income tax relief (subsidised ‘decay per annum’ figure) is designed to encourage systematic maintenance of architectural heritage by private owners to forestall decay
and provides evidence that public support for regular maintenance negates the necessity for large scale publicly funded repair projects in the long term.

In the USA certified historic buildings used for commercial purposes benefit from tax credits for “rehabilitation work” which has been regulated by the State Heritage Preservation Office. Additional tax credits are provided for the rehabilitation of such buildings for social housing purposes.

**Property tax incentives**
Protected heritage structures in Belgium, Denmark, France, Germany, Italy, Netherlands, Spain, UK, USA and Canada may be entitled to either an exemption, abatement or freeze from property tax which is usually raised at municipal (local) government level. Protected heritage structures in the UK and Belgium must be unoccupied in order to claim an exemption. All residential property and unoccupied commercial property in Ireland is exempt from property tax regardless of heritage status.

**VAT/Sales tax exemptions and reductions**
The standard rate of VAT on the supply of goods and services varies from 16% to 25% in the Western European countries examined. Denmark and Germany do not provide a VAT concession for works to protected heritage structures. Belgium, France, Italy and the Netherlands charge a reduced rate of VAT for dwellings which greatly reduces the cost of works to architectural heritage buildings in residential use. All construction activity is charged at a reduced rate of VAT in Ireland. Only Spain applies a lower rate of VAT specifically for works to protected heritage structures and in the UK some works are zero-rated or a lower rate of VAT is applied (in the case of repairs to historic places of worship).

Exemptions and reductions from sales tax liability vary greatly by state (USA) and province/territory (Canada) depending on the enactment of enabling legislation. Sales tax concessions are further complicated by the fact that tax liability is levied at federal, state and municipal level, thereby creating a situation where the concession may only be applied by one level of government, leaving taxpayers liable to pay the balance of sales tax to the other levels of government within the federal administrative system.

**Donations and sponsorship**
All of the countries examined provide a system of tax deductions to encourage private donations/sponsorship to charitable heritage conservation organisations (such as non-profit heritage trusts and foundations), which, in turn, fund heritage conservation activity.

**Inheritance, gift tax and capital gains tax concessions and exemptions**
Various forms of inheritance, gift tax and capital gains tax concessions/exemptions are available to the owners of protected heritage structures in all of the countries examined with the exception of Denmark and Canada. Eligibility requirements vary greatly from country to country regarding public access, family continuity, holding period prior to sale of property and charitable status of recipient body.
Introduction

The amount of public funding available for conservation activity is becoming increasingly inadequate. It is therefore insufficient to rely on public sources of funding and encouragement must be given to the private sector whether corporate, institutional or individual (Hooper, 2003).

Inducements from public sector budgets to encourage improved and increased activity to maintain built heritage assets may take the form of either direct incentives or indirect incentives. Direct incentives involve the direct transfer of money to another stakeholder, such as a private owner, to finance (or part finance) a conservation activity (for example, through grant-aid subsidies). Indirect incentives have different attributes as they involve no direct transfer of money and no state expenditure is recorded (for example, tax-based incentives and loan guarantees) (Schuster et al, 1997).

The use of tax incentives is a recognised method to attract private investment in conservation, restoration and rehabilitation work and most European countries have tax regimes which, to a greater or lesser extent, affect the ability of owners to maintain their historic buildings (Selling, 2003). In a European context it has been suggested that appropriate fiscal regimes to encourage increased private investment, in the public interest, could offset any loss of revenue to state budgets (Council of Europe, 1991a and 1991b). This is also the case in USA and Canada. Moreover, studies in the USA have highlighted the indirect benefits of offering tax incentives including increased economic output, greater wage earnings, the provision of business and residential accommodation, jobs in construction and other related services, tourism revenues and additional spending creating increased tax revenues in themselves including increased property, business and income taxes (Morton, 1993; Rypkema, 1994; Johnstone, 2004).

...tax incentives for the purpose of promoting investment in the architectural heritage has been championed by the European intergovernmental political organisation, the Council of Europe.

The issue of using tax incentives for the purpose of promoting investment in the architectural heritage has been championed by the European intergovernmental political organisation, the Council of Europe. It has a particular remit in the field of cultural heritage through its conventions on the architectural and archaeological heritage and landscapes and other tools such as recommendations and resolutions that aim to develop continent-wide agreements to standardise social and legal practices.

In developing the concept of integrated conservation and legal principles for the protection and management of the architectural heritage, the Council of Europe’s Granada Convention set out a number of articles on financial support measures for
maintaining and restoring the architectural heritage (Council of Europe, 1985). Article 6 of the convention identifies that signature parties to the convention should ensure that public authorities provide such support, including via fiscal measures, and otherwise encourage private initiatives, and article 14 identifies a requirement to foster the development of sponsorship and of non profit making associations working in this field (which may also be through the provision of tax incentives).

Moreover, subsequent publications by the Council of Europe that have identified ways of funding the architectural heritage have indicated that the special quality of the architectural heritage fully justifies the provision of special tax measures (Council of Europe, 1988; Council of Europe, 1991a). Furthermore, a Recommendation adopted by the Committee of Ministers to member states identified that measures should be taken, particularly in countries where the tax system favours investment in new rather than old buildings, to arrive at a situation where taxation provisions encourage conservation, maintenance, restoration and rehabilitation of old buildings (Council of Europe, 1991b, Pickard, 2002).

More recently the Parliamentary Assembly of the Council of Europe indicated that existing systems which apply tax relief and fiscal encouragement to the protection and conservation of the cultural heritage should be reviewed, and identified the need for examples of good practice (Council of Europe, 2003, Hooper, 2003). It is in this context that this paper has been developed.

This paper does not consider economic valuation techniques for the purpose of determining the public's willingness to pay for action in support of heritage properties through increased taxation. Such valuation studies presently have limited scope for heritage-related benefit appraisal and evaluation, although a number of studies have examined this issue (English Heritage, 2005).
Tax incentives

Tax regulations can prevent owners and potential investors in heritage property from making investment decisions, which could otherwise be profitable and beneficial for the architectural heritage. The rationale for policymakers to use tax incentives as a tool in heritage conservation is based on the idea that it is a less coercive form of action as compared to direct government actions such as by regulation and the provision of grant subsidies. The indirect form of assistance through tax incentives therefore allows more freedom of choice to take action, which in theory should lead to more efficient economic outcomes.

As tax incentives rely on established tax collecting systems they do not require costly additional government bureaucracies. If used correctly, tax incentives can correct market failure and avoid costly and politically unpopular direct forms of government action (such as coercive action to ensure the preservation of heritage assets).

Tax based incentives involve no direct transfer of money although foregone taxes represent a cost to a State budget and therefore to a nation as a whole. However, activities benefiting from the incentive will usually create tax revenues (from employment in conservation and restoration work, business occupation of premises etc.).

There are broadly three forms of tax-based incentives that can be used to encourage action on the architectural heritage:

- incentives to reduce the cost of conservation, maintenance, restoration and rehabilitation work;
- incentives to prevent the demolition and replacement of architectural heritage assets in favour of redevelopment;
- incentives to encourage sponsorship and donations to non-profit organisations such as foundations and other heritage organisations that will take action on heritage property.

As taxation is usually the sole responsibility of the relevant government ministry, department or agency dealing with tax revenue, tax incentives will largely be determined by the relevant taxation authority, unlike subsidies and loans which are more likely to be controlled by the competent heritage authority. A relevant authority (either the revenue authority or heritage authority or both) should inform the public about the availability of tax incentives and issue regulations and explanatory notes to ensure equitable distribution of the incentive. It may also be necessary to issue internal interpretive regulations to enable public officials such as heritage officials to determine public eligibility for incentives.

Forms of fiscal measures
The private sector plays an important role in heritage conservation in terms of corporate sponsorship and contributions from foundations and private individuals. A variety of different forms of fiscal incentives designed to encourage private investment in heritage conservation activity are in operation throughout Western Europe and North
Income tax incentives

Two forms of income tax based incentives to allow expenditure on heritage properties to be deducted from income tax can be identified:

- Tax deduction (relief) where the owner may deduct specified expenditure from income, reducing effective taxable income, subject to limits;
- Tax credits where the owner may deduct a fixed percentage of specified expenditure from income tax payable.

In the case of a tax deduction the benefit received by the owner is a direct result of his/her marginal tax rate. Thus, the incentive is regressive as the tax benefit rises with the income of the recipient (if there are different tax rates). The tax credit is more equitable as it offers the same percentage allowance on all expenditures.

A problem associated with income tax incentives is the inability of members of the public earning low incomes to benefit. However, as a matter of public policy some countries such as the United Kingdom and the United States provide refundable monetary payments in the form of “tax credits” targeted at individuals on low incomes (Howard, 2002). Whilst these are unrelated to heritage conservation, it provides evidence that tax expenditure could be directed for this purpose to ensure that all individuals could benefit from tax incentives. The approach adopted in western European countries tends to favour deducting eligible expenditure from income whereas in the United States a tax credit system is in operation.

Examples of income tax cost deduction systems

A number of countries provide income tax incentives in relation to the architectural heritage. The general approach is for eligible costs to relate to approved conservation or restoration work but not improvement work. However, in some instances rehabilitation works may benefit. Some examples are provided as follows:
Belgium
The Income Tax code for Belgium allows owners of classified architectural monuments to deduct non-subsidised maintenance and restoration costs (i.e. those costs that are not covered by any grant aid) for residential owner-occupiers (i.e. rented property does not benefit) up to a specified limit. In order to qualify for the incentive the regional heritage authority must first determine the necessity and quality of works undertaken. The owner must first incur the expenditure before claiming the tax rebate and payment is dependent on the works being carried out in a satisfactory manner. Furthermore, the owner is usually required to allow public access for a limited number of days per year for up to ten years if elements of the building that have

Figure 1: Renaissance Master House ~ Verver Sdijk (15th Century with 18th/19th century alterations), Bruges, West Flanders, Belgium where maintenance costs are funded by municipal government via income tax incentives.
benefited from the incentive are not visible from the exterior or street level. Other protected properties in protected city and town sites (i.e. protected sites rather than individually protected monuments) do not benefit from this incentive (www.european-heritage.net/sdx/herein/; Goblet et al, 2001).

Denmark
In Denmark a special income tax relief has been negotiated by the Danish Association of Owners of Historic Houses ‘Bygnings Frednings Foreningen’ (BYFO) and is embedded in tax legislation to assist private owners of listed houses to fund maintenance expenses (including all listed buildings in other uses that were originally constructed as houses). BYFO is an independent non-profit organisation administered by two qualified restoration architects, a tax specialist and an executive assistant. In order to qualify for the incentive private owners must subscribe to the organisation through an annual membership fee. BYFO administers the system itself, which greatly reduces administration and bureaucracy by the local tax authority. The tax authority also benefit because maintenance expenditure creates increased income tax from organisations and individuals employed to undertake maintenance work and VAT revenues from the supply of materials and services (the Danish government originally authorised the system due to the fact that it would increase tax revenue from historic houses in private ownership).

Figure 2: Listed houses (harbour houses dating from 1681) located on Nyhavn, Copenhagen, Denmark where income tax relief for maintenance expenditure on privately owned protected structures (listed houses) is related to estimated annual decay negotiated by Danish Association of Owners of Historic Houses ‘Bygnings Frednings Foreningen’ (BYFO) (including listed buildings in other uses that were originally constructed as houses).
The incentive operates to encourage owners to maintain their properties but it does not apply to improvements. It is a formula based system of assessment termed 'decay per annum' based on the assessment of elements of the building (external walls, external and internal materials, service installations and other aspects) and a figure representing the rate of decay for the entire building (each different element will have a different life span and cost figure which is updated annually by a building cost index). For example if roof tiles cost €8 per square metre and would normally have a life of 35 years, for 100 square metres of roof area the figure for the roof element would be 100 x 8 divided by 35 or approximately €23. The 'decay per annum' amount is the total figure for all elements considered in the survey of the building (not individual elements).

The 'decay per annum' figure shows the total decay amount for the entire building, not the individual elements of the building. Owners may choose to write off substantial maintenance expenditure against income tax in two ways. First, owners may spend a large sum on maintenance and deduct the 'decay per annum' rate in the current and subsequent years. It is however more common for owners to wait until an adequate 'decay per annum' rate has accumulated over a number of years so the full expenditure can be deducted immediately. The tax deduction is given whether or not the works are carried out – it is provided as an incentive to encourage maintenance.

While the decay per annum report can transfer from one owner to another, any maintenance expenditure in excess of the total decay amount cannot be transferred to a new owner upon sale of a protected structure. Upon transfer of ownership, the accumulated 'decay per annum' is forfeited and the 'tax metre' starts afresh with the new owner (Haubre, Hoesch, Møller, and Høyer, 1996; www.byfo.dk).

France
In France a number of general tax incentives are available to owners of 'non-historical' property with respect to income derived from the property. Different rules apply concerning whether a building is rented or owner-occupied. For rented property eligible expenses incurred from letting (such as administration costs, caretaker’s costs, insurance premiums, property taxes, certain maintenance, repair, renovation and improvement costs) may be deducted from the amount income received in the form of rent. If these deductions result in a deficit, it can be carried over to income derived from the property (i.e. not overall income) for the following ten years. For owner-occupied property the owner may not deduct any expenses from the income, but a tax reduction (credit) has been available for eligible repairs and improvements (Beauvais, 1999; Beauvais, 2000; Benhamou, 1997; Longuet and Vincent, 2001, www.european-heritage.net/sdx/herein/).

Notwithstanding the general tax incentives for property, a special tax system applies to

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Notwithstanding the general tax incentives for property, a special tax system applies to
specified protected or certified historic buildings. These include ‘classified monuments', monuments listed in the ‘supplementary inventory' and other ‘certified buildings' (buildings considered as belonging to the national heritage because of their special historic, artistic or tourist interest and certified as such by the Ministry of Economic Affairs and Finance or the Head of the Department of Taxation). This special tax system applies to all parts of an architectural complex, not just those parts that are classified, listed or certified, if they constitute an indivisible whole as far as the protection of relevant parts are concerned.

Different rules apply in relation to rented protected buildings and non-rented protected buildings and for the latter whether they are open to the public or not. The deductible amount must not include the cost of any work that has been otherwise subsidised. The deductibility of expenditure on monuments depends on whether the monument is open to the public. Opening to the public is not mandatory under French law but only 50% of the eligible expenses can be deducted from total revenue if public access is not allowed for a specified number of days per year.

The owners of buildings that are not classified or listed in the supplementary inventory, but have been specially certified due to their historic or artistic characteristics, may also benefit from reduced income tax based on losses incurred in respect of the property. However, only half the amount of any eligible expenditure on the property is deductible from taxable income even if the building is open to the public.

The rules for owners of buildings that are classified, listed or certified (as above) are as follows:

**If the whole building is rented:** The owner may deduct all property-related expenses (subject to general law tax provisions: as above, but any deficit may be carried over to overall income). Property-related expenses include an annual subscription to the Historical Monuments Department for the upkeep on the monument and amounts paid as contributions to any work carried out by the State or the proportion of expenses actually borne by the owner in the event of subsidised work being carried out.

**For non-rented buildings:** For a building that is occupied or partially occupied by the owner a distinction is made between buildings which are the source of supplementary income through entrance fees for opening the property to the public and those which are not. If there are no receipts from entry fees (the building is closed or open to the public free of charge) the situation is similar to that of a rented building (costs can be deducted from overall income). When a supplementary income is obtained from entry fees further deductions can be made from the owner’s income raised from the property.

In addition, tax incentives are provided in relation to the expenses derived and costs incurred (for purchasing, renting, or maintaining) from using a classified, listed or certified property for commercial purposes.

Further income tax incentives are provided in relation to rented residential property situated in a Secteur Sauvegardé (conservation area) or a zone of architectural, urban and landscape importance (ZZAUP).
(Férault, 2001; Cornu, Férault, and Fromageau, 2003). Tax incentives have been designed to promote collective property restructuring schemes in these designated areas. Owners may deduct loan interest and expenditure incurred for maintenance, repair and improvement works (as is defined under ordinary rules) as well as other approved costs (see below) from rental income derived from residential property. Any resulting deficit for property tax purposes may be deducted from the landlord's total taxable income so long as the owner has leased the restored property, unfurnished, as a tenant's main residence where the length of tenancy is at least six years. No maximum limit applies. Since 1995, eligibility for tax relief has been restricted to:

- Restoration work in a Secteur Sauvegardé where a conservation and enhancement plan (PSMV) has been published or approved;

(Figure 3: Renovated houses within the secteur sauvegardé in Troyes, France. The 1962 "loi (law) Malraux" permitted the designation of urban quarters as secteur sauvegardés. A conservation area of 23.66 hectares was designated in Troyes in 1964 and has since been extended and now covers an area of 180 ha, providing fiscal incentives for restoration works (Peltier, 2006). The most recent preservation and enhancement plan (plan de sauvegarde et de mise en valeur) was approved in 2006 (Ministre de la Culture et de la Communication, 2006).
Restoration work in an established Secteur Sauvegardé prior to publication of a PSMV, or in a designated ZPPAUP, provided that the restoration work is carried out within a ‘buildings restoration perimeter’ and has been declared to be of public interest.

Deductible expenses can include any necessary conversion work to residential property where such work has been approved by the ‘official architect’. Demolition work may also be tax deductible when it is a compulsory part of the competent authorities' planning permission and when it is specified in a conservation and enhancement plan or in a declaration that the restoration work is of public interest. Where demolition makes it necessary to re-roof existing buildings or rebuild their external walls, this work also is tax-deductible. However, new building, rebuilding and extensions are not deductible.

To be eligible for tax relief, projects may be carried out by:
- Private landlords including individual owners, consortiums of owners or an investment company;
- Public authorities including government planning bodies, semi-public companies contracted or licensed to run a project, or low-cost housing associations authorised to carry out restoration work;
- Non-profit associations set up to carry out housing improvements or restorations.

Rehabilitation work carried out by owners in a ‘perimeter for real estate restoration’ can then take advantage of special tax deductions including deductions from property and income taxes if they undertake to lease buildings as dwellings for a minimum period of six years.

Germany
In Germany income tax incentives are used in a variety of ways to preserve, improve and rehabilitate historic property (MSV, 1992; Hooper, 2003; www.european-heritage.net/sdx/herein/).

Repair, maintenance and utility improvements on existing buildings (i.e. whether a protected building or not) up to a specified limit are income tax deductible in Germany. Both maintenance and rehabilitation expenses in the case of protected property (singly or part of an ensemble) are given specific tax incentives.

In relation to maintenance expenses the situation differs depending on whether the property generates an income and whether the building is owner-occupied or leased:

Properties not generating an income (and the owner does not live in the building):
Owners can deduct both repair and maintenance costs from their taxable income over a ten-year period at a rate of 10% per year from the year in which the expense was first incurred (but without the possibility of carrying over from one year to another). The work must have been first approved as being necessary by the relevant department of cultural affairs. No income must have been derived from the building during the year in which the expenses were incurred (such as entrance fees to castles or palaces in private ownership). Types of eligible expenditure include the renewal of existing parts such as...
repair work, exterior rendering, exterior cladding, renewal of heating or sanitary installations.

Properties not generating an income (the property is owner-occupied): Owner-occupied protected buildings (and, additionally, buildings otherwise certified by the municipal authority as being of historic, artistic or cultural interest) are given the same deduction allowance as properties not generating an income (and the owner does not live in the building) (see above). This provides a significant incentive as other non-protected or non-certified old buildings are only entitled an allowance of €1,278 per year over an eight-year period provided that the income does not exceed a defined limit.

Properties generating an income (e.g. for entrance fees): The tax authorities treat any expenditure on general upkeep not in excess of €2,000 as routine maintenance and tax deductible.

Properties earning a rent derived from a lease: Owners of protected or certified buildings that have been leased can spread the deduction of maintenance expenses over a two to five-year period. This provides a real advantage over other buildings where such expenses are only deductible from rental income for the year in which they were incurred.

There is also an “accelerated depreciation” of rehabilitation expenses for tax purposes benefiting protected and certified buildings (and including buildings located in urban areas designated for rehabilitation). The rehabilitation of a protected building for a new use, such as a former factory or agricultural building, can benefit from the tax incentive if the historical substance of the building is preserved (or if the works allow for the possibility of reversing the building to its historical design).

In certain circumstances the purchase costs of buying an architectural monument for use (to achieve a taxable income) can also be deducted from income tax. This incentive is used to reflect the loss of value compared to buying a non-protected property and is designed to encourage investment in protected buildings.

Ireland

Section 482 of the Irish Taxes Consolidation Act 1997 enables private owner-occupiers of buildings and gardens, which have been determined to be ‘intrinsically of significant architectural, historical, scientific, horticultural or aesthetic interest’ (depending on whether it is a building or garden or both) to offset the cost of repair, maintenance or restoration of the property against income or corporation tax liability. Additional relief, up to an aggregate of €6,350, is provided for repair, maintenance or restoration of approved objects in an approved property provided the objects are on display for a period of at least two years from the year in which the expenditure is claimed, for the installation, maintenance or replacement of a security alarm system, and for the provision of public liability insurance.

To qualify for the relief, the Revenue Commissioners must be satisfied that public access to the whole or a substantial part of the property is afforded for a period of at least 60 days in any one year including not less than 40 days during the period 1st May - 30th
September inclusive, for at least four hours per day, and that any admission price is reasonable.

This provision does not apply to all ‘protected structures’ (for which limited grant aid assistance is provided), but only those properties that have been identified by the Minister for Environment, Heritage and Local Government as having the required interest. The range of eligible buildings includes castles, churches, larger houses and some 18th century town houses.

By May 2004 a total of 445 properties had been approved under the scheme since its commencement in 1982. However, this figure includes many properties that had been listed in previous years and only 166 properties were eligible for this relief at this date (MacRory and Kirwan, 2001; Indecon International Consultants, 2004).

**Italy**

Tax treatment of old buildings differs according to whether they have been recognised as being of special cultural interest under a decree issued by the Ministry of Cultural Affairs or whether they qualify as part of the national historic and artistic heritage. Private owners of listed buildings are entitled...
to offset repair and maintenance expenses against income tax although variations apply in relation to rented and non-rented property and geographical location.

**In the case of non-rented property:** Owners of listed buildings, who are subject to the obligation of maintaining and safeguarding their properties, are permitted to deduct 19% of repair and maintenance expenses from their income tax. The deduction of expenses for maintenance of listed buildings is only allowed where the expenditure has been required (by law) or where the Department of Cultural Affairs has certified the necessity for it (Hooper 2003).

**In the case of rented property:** Maintenance expenses are deducted from rental income, not gross tax. In this situation a flat-rate deduction equivalent to 15% of the rent (or the rateable value if higher) is applicable and the owner cannot make any other deductions. Variations to this rate are evident in certain geographical locations, for example, the flat-rate deduction is increased to 25% for properties located in central Venice or on the islands of Giudecca, Murano and Burano. In locations where rental property is at a premium (in particular the cities of Bologna, Florence, Genoa, Milan, Naples, Palermo, Rome, Turin and Venice and the surrounding suburbs), owners are entitled...
to a supplementary 30% deduction (in addition to the 15% or 25%) (Hooper 2003). Netherlands

In the Netherlands private individual owners of State level protected historic buildings can offset all repair and maintenance works against income tax as well as improvement works such as the provision of kitchen and bathroom facilities and plumbing and heating installations. These provisions do not extend to historic monuments protected by provincial or municipal authorities.

Foundations set up to carry out work on historic buildings on a non-profit basis are also able to benefit from tax relief measures. For example, the Dutch Preservation Society 'Hendrick de Keyser', established in 1918, is an idealistic non-profit foundation that depends on donations of money and houses from members by guaranteeing sympathetic restoration and maintenance of donated property into perpetuity. As a non-profit entity, the society is exempt from income tax and income tax relief is available to individuals and companies providing donations to the foundation. The foundation receives state

Figure 6: Amstel Church (1668) in the City of Amsterdam, the Netherlands restored by 'Stadsherstel' (Amsterdam City Restoration Company) was originally a 'noodkerk' (temporary wooden structure in expectation of a stone church). The timber church, known as the sermon shed (preekschuur), now incorporates a multi-functional building including the 'Stadsherstel' offices, a restaurant, space for meetings, dinners, exhibitions and the continuation of religious ceremonies on Sundays. Many canal houses located around the church have also been repaired by 'Stadsherstel' and converted into apartments.
subsidies of up to 70% on eligible restoration works for restoration costs on the historic fabric of monuments in comparison to private individuals and companies which receive a 20% subsidy on eligible works but may supplement this subsidy with either income or corporation tax relief.

Limited liability companies established for the purpose of repairing and rehabilitating historic buildings can also benefit from tax concessions. For example, Stadsherstel Amstel (The Company for City Restoration) has achieved the synthesis of a private profit-making limited company and an institution serving a common good through a public-private partnership in restoring and rehabilitating buildings in the city of Amsterdam. It is essentially a non-profit making organisation, which operates as a revolving fund. The contradictory nature of a profit making limited liability company and a non-profit public housing corporation is justified by the fact that the annual dividend to shareholders is fixed at 5% (and commercial shareholders are exempt from company tax of 35% on this income so long as the upgraded value of a building does not exceed the cost of works). The low dividend ensures that shareholders invest in the company for social reasons. In the case of dissolution, the shareholders only receive their initial capital outlay plus the dividend on it. Any surplus funds go to the Central Fund for Public Housing or to an institution for restoring
historic monuments. Limited companies of this nature are also exempt from paying VAT relating to work carried out to properties for commercial use. The rehabilitation of canal houses into apartments with a commercial use on the ground floor would mean that the commercial element of the project would benefit from VAT exemption.

Spain
Owners of properties included in the General Register of Properties of Cultural Interest are entitled to claim tax credits (Calvo, 2001; Hooper, 2003). For expenditure incurred on purchasing a registered property, owners are allowed a tax credit equivalent to 15% of the amount of such expenditure, but the cost taken into account is capped at €9,015. In addition owners may claim a tax credit equivalent to 15% of the amount of any expenditure incurred on conservation, repair and restoration works provided that the building is opened to the public and the sum incurred has not already been deducted from property income for tax purposes.
Tax credit systems in the United States of America

In the USA the Federal Historic Rehabilitation Income Tax Credit rewards private investment in rehabilitating historic properties that are depreciable buildings used for commercial purposes (i.e. used for trade or business and held for the production of income) in office, commercial, industrial or agricultural use or for rental housing (owners of owner-occupied houses cannot benefit from this incentive) (Pickard and Pickerill, 2002a; Johnstone, 2004). Two forms of tax credit are provided:

- a 20% tax credit for the certified rehabilitation of certified historic structures;
- a 10% tax credit for the rehabilitation of non-historic, non-residential buildings built before 1936.

A building eligible for the 20% tax credit must either be a Certified Historic Structure listed individually in the National Register of Historic Places or located in a Registered Historic District and be certified as contributing to the historic significance of the Registered Historic District. Buildings designated at State or Local level will also be considered as Certified Historic Structures if the designation is certified as conforming to the National Register criteria. Projects undertaken for the 10% tax credit must meet physical requirements concerning the retention of external walls and the internal structural framework.

The approval process for the 20% tax credit requires submission of a three-part Historic Preservation Certification to ensure that works conform with the Secretary of the Interior’s Standards for Rehabilitation (National Park Service, 1990). If a rehabilitated property is disposed of within five years of being placed back in use the tax credit will be recaptured on a scaled basis at 20% per annum over five years.

In addition to the Federal Rehabilitation Tax Credit a number of state heritage programmes administer income tax credits that either supplement the federal system or provide tax credits for historic properties that are certified as historic structures at the state or municipal level but are not entitled to the federal tax incentives. In some cases these state tax credits can apply to owner-occupied houses. For example, North Carolina provides some of the most generous tax incentives for historic preservation in the USA, following the enactment of a 20% rehabilitation tax credit for commercial property owners and a 30% rehabilitation tax credit for owner occupied historic dwellings. The 20% commercial tax credit can be added on to the federal tax credit of 20% to provide a combined credit of 40%.

Tax credits for rehabilitation to social housing

In the USA the Federal Rehabilitation Tax Credit can be combined with an investment tax credit provided for the acquisition, construction, or rehabilitation of low-income housing for occupants who meet specific income requirements (Escherich, Farneth and Judd, 1997). An existing building does not need to be a certified historic structure to quality for the low-income housing tax credit. However, where a certified historic structure is
The combination of the rehabilitation tax credit (as above) and the low income housing tax credit (as below) provide a greater amount of available capital for rehabilitation projects ensuring that historic buildings are preserved for the future and for a socially useful purpose.

In a historic rehabilitation project that will be used for low-income housing the rehabilitation costs on which the low-income housing credit is based is reduced by the amount of the historic rehabilitation credit. Two housing tax credit percentages apply to buildings that qualify as 'substantially rehabilitated':

- 70% tax credit for rehabilitation expenditures that have not been federally subsidised, equating to a credit of circa 9% per annum for ten years.
- 30% tax credit for rehabilitation expenditures that have been federally subsidised (i.e. by grant aid), equating to a credit of circa 4% per annum for ten years.

These levels can be increased for the rehabilitation of buildings in designated difficult development areas.

The low-income housing tax credit is available for a 10-year period. To fully attain the credit a housing project must set aside a

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Figure 7: Rehabilitation of the Train Terminal Headhouse and Filbert Street Arcade (1885-1891), Philadelphia, USA. Certified in the National Register of Historic Places, the terminal building was converted to a market arcade, convention centre and hotel with the benefit of a 20% federal rehabilitation income tax credit.
minimum percentage of rent restricted units that meet certain criteria relating to cost per unit and income of occupants relative to area median incomes and must remain in compliance with the occupant’s income limitations for a period of 15 years. Failure to comply with the rent restriction requirements over this period results in a recapture of a portion of the credit plus interest.

The system of tax credits operating in the USA has been found to be very effective in encouraging investors to invest in rehabilitation projects. The possibility to combine two forms of tax credit can be critical to the financial viability of rehabilitation projects. Developers can entice investors into rehabilitation projects by, in effect, selling the benefit of the tax credit. A typical approach is to form a limited partnership with the project sponsor as general partner. Investors buy into the partnership as limited partners by making capital contributions to cover project costs. Each partner’s share of the profits and losses for tax purposes is based on the partner’s

**Figure 8:** Regent Terrace Low Income Housing Project (1908), Philadelphia, USA. Rehabilitation funded by the 20% federal historic rehabilitation tax credit combined with the low Income (affordable housing) tax credit.
share in the partnership. In order to provide a return on the investment to the investor-partners, the investment to the partnership is less than the amount of the credit itself.

Furthermore, non-profit organisations buy historic buildings and syndicate the restoration project by forming a limited partnership, whereby the non-profit agency holds a 1% interest in the property as a limited partner and the syndicate holds the other 99%. The non-profit organisation ensures that the building is rehabilitated and the investors receive the passive benefit of the tax credit. Ownership of the historic building reverts back to the non-profit organisation once the tax credits have been received by the passive syndicate members and the recapture period has elapsed.

**The argument for tax credits in Canada**

Canada’s Federal Tax Law does not provide specific income tax incentives for historic buildings. Moreover, property owners can take an income tax deduction on the depreciated value of a building at the time of demolition, giving an immediate tax benefit for building demolition rather than preservation. The owner of a property can write off 75% of the depreciated value of the property upon demolition, the situation for historic property having worsened since before 1987 when the write off was only 50% (McCleary, 2005).

Criticism that Canada has lost more than 20% of its pre-1920 heritage buildings to demolition over the last 30 years has led to calls for the introduction of tax incentives. One step in this direction was the launch of the Historic Places Initiative (HPI) in 2001 as part of an investment, announced by the Government of Canada in May 2001, of more than $500 million aimed at ensuring the growth and development of Canadian arts and culture. The HPI set out a national strategy to provide the tools that Canadians need to participate in conserving historic places. The overall vision was to encourage a culture of conservation in Canada, wherein governments, communities, and the private sector would work in partnership to achieve common goals.

The HPI envisaged using tax credits as well as grant funding programmes, but, due to budgetary cuts, the HPI was terminated in September 2006. However, in a recent review of the HPI scheme, tax incentives were identified by all HPI partners as the most effective means to encourage individual, heritage groups, and the private sector to become active in preserving historic places (PRA Inc, 2005). Moreover, the continued lack of income tax incentives in Canada has been under review by the Heritage Canada Foundation (2007), which has argued for the introduction of a rehabilitation tax credits similar to those available in the USA.
## Comparative Table: Income tax incentives for the architectural heritage

<table>
<thead>
<tr>
<th>Country</th>
<th>Eligible property</th>
<th>Non-subsidised eligible work</th>
<th>Eligible owners</th>
<th>Public access requirements</th>
<th>Relationship to regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Classified monuments and monuments included in a protection list (Regional variations)</td>
<td>Restoration and maintenance expenses (subject to limits)</td>
<td>Private residential owner occupiers</td>
<td>Mandatory only if subsidised works not visible from exterior</td>
<td>Quality of work regulated by Regional Heritage Authority</td>
</tr>
<tr>
<td>Denmark</td>
<td>Monuments included in the preservation list</td>
<td>Maintenance expenses (subject to calculated 'annual decay' figure)</td>
<td>Private owners of listed houses (including houses currently in commercial use)</td>
<td>No</td>
<td>Administered by BYFO but maintenance works are not regulated</td>
</tr>
<tr>
<td>France</td>
<td>Classified monuments; monuments included in supplementary inventory; and certified buildings; and conservation areas (General tax incentives also apply to repair and maintenance of non-historic property)</td>
<td>Restoration, repair, improvements and maintenance expenses including management costs for rented property (variations apply to owner occupied and rented buildings and conservation areas)</td>
<td>Private owner occupiers, private landlords (for profit and non-profit) and public authorities</td>
<td>Not mandatory although failure to allow public access results in 50% reduction in subsidy</td>
<td>Major works require approval from the official architect</td>
</tr>
<tr>
<td>Germany</td>
<td>Monuments included in the state registers of cultural monuments and buildings certified by a municipal authority (General tax incentives also apply to repair and maintenance of non-historic property)</td>
<td>Repair and maintenance expenses including heating and sanitary installations (subject to limits) (variations apply to income and non-income generating property). Landlords may deduct purchase costs from taxable income.</td>
<td>Private owner occupiers and private landlords</td>
<td>No</td>
<td>Works must be approved by the Department of Cultural Affairs</td>
</tr>
<tr>
<td>Ireland</td>
<td>Monuments included in the national record of protected Structures</td>
<td>Repair, maintenance, restoration, security alarm installation and maintenance and public liability insurance (subject to limits)</td>
<td>Private owner occupiers</td>
<td>Mandatory</td>
<td>Approval to enter scheme required from Department of Environment, Heritage &amp; Local Government. All works to protected structures require local authority planning permission</td>
</tr>
</tbody>
</table>
A review of fiscal measures to benefit heritage conservation

<table>
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<tr>
<th>Country</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>Monuments recognized as being of special cultural interest or buildings that qualify as national historic and artistic heritage</td>
<td>Repair maintenance and restoration expenses (variations apply for rental and non-rental property) (Additional geographical variations apply for rental property)</td>
<td>Private owners</td>
<td>No</td>
<td>Quality of work regulated by Board of Architectural and Environmental Assets</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Monuments included in the state register of protected monuments; and monuments included in the municipal or provincial heritage ordinance</td>
<td>Repair and maintenance expenses, kitchen, heating and sanitary installations (only applies to monuments included in the state register)</td>
<td>Private owner occupiers and landlords (including for profit and non-profit entities)</td>
<td>No</td>
<td>Advice on necessity and quality of works provided by Monument Watch</td>
</tr>
<tr>
<td>Spain</td>
<td>General Register of Properties of Cultural Interest</td>
<td>Acquisition, repair, conservation and restoration expenses (subject to limits)</td>
<td>Private owner occupiers and landlords</td>
<td>Mandatory</td>
<td>Each autonomous community responsible for monumental heritage with their jurisdiction</td>
</tr>
<tr>
<td>UK</td>
<td>Buildings included in the statutory list</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**North America**

| USA | Monuments included in the federal or state register of historic places; and monuments included in a local preservation ordinance | Rehabilitation works to certified federal monuments and state and municipal monuments (variations apply within state and municipal areas). A reduced tax credit applies to non-certified structures built before 1936. Additional federal tax credit available for provision of low-income housing. | Private landlords (owner occupied residential property specifically excluded from federal tax credits but eligible for state enabled tax credits in some states) | No | Quality of work regulated by SHPO (State Heritage Preservation Officer) |
| Canada | Monuments included in the National historic sites register; and designation of monuments with provincial, territorial or municipal significance | N/A | N/A | N/A | N/A |

Note: Variations in architectural heritage conservation policy may apply at different levels of government within decentralized and centralized countries.
Property tax incentives

Property taxes are usually based on the market value of property (by rental or capital value) for the purpose of raising municipal revenue. Other property taxes can include a tax on the purchase of property.

Property tax incentives may be initiated in various forms such as an assessment freeze, current use assessments (as opposed to alternative best economic use), assessments as a percentage of full market value, reduced tax rates or complete exemptions. These forms of relief, which can be either temporary or permanent, can be aimed to alleviate the high expenditure and rising property values that can be a consequence of heritage conservation activities (i.e. conservation work will lead to an improvement in the property and consequently may cause an increase in real estate assessment/value with a resulting increase in taxation). Despite the potential for increases to the tax base in the long-term, many authorities are reluctant to initiate property tax rebate strategies on the renovation of historic buildings due to the fear of short-term revenue losses. Programmes to rebate an increase in property tax for a defined period of time do not cost any money. The loss is strictly a conjectural opportunity cost as it is difficult to establish what improvement would have taken place in the absence of a rebate programme.

Examples of property tax incentives

In many countries property taxes are punitive, providing a disincentive for conservation work to heritage structures as such work may cause an increase in the real estate assessment resulting in an increase in taxation. The

Figure 9: City of Bruges, West Flanders, Belgium uses a punitive incremental tax on vacant derelict structures as a disincentive to neglect city buildings. The system works well as a disincentive to neglect buildings.
process of obtaining building permits or conservation consents can be counterproductive as it alerts tax revenue officials of potential increases in the tax base. In order to alleviate this problem, property tax incentives can be provided to encourage action on heritage assets. (A number of country examples are provided below to illustrate this).

Furthermore, if a property tax is based on the market value of the land, determined by the development potential of nearby sites, the tax may encourage demolition of historic buildings (in order to obtain a higher value from redevelopment). However, the prevention of demolition can be linked to the property tax incentives. Evidence for this can be found in Denmark, USA and Canada.

**Belgium**

In the Brussels-Capital Region of Belgium the regional administration provides an exemption from the property tax assessed annually on immovable property in relation to classified property that is not let or in use. The City of Bruges (municipal authority) in the Flemish Region of Belgium reduces the level of vacant and neglected buildings by imposing a punitive accumulative Flemish regional government tax on owners. The tax is calculated by the metre. For example, a gable of 10m will have a tax liability of €2,500 in the first year. This is doubled in the second year if the owner does not take remedial action. Accumulated taxes go to the Social Impulse Foundation (SIF) to fight against building neglect (Goblet et al, 2001).

**Denmark**

In Denmark owners of listed property are exempt from estate (property) tax if they sign a special preservation declaration foregoing their right to demand that the State government purchase the property in the event of a refusal to allow demolition. In theory, the tax saving can fund ongoing maintenance of listed buildings although there is no security that this saving must be expended on maintenance. This relief is beneficial to owners in urban areas where land values are high but does not work well in rural areas where rates are comparatively low (Lunn and Lund, 2001).

**France**

There are no specific reductions in property tax for historic buildings in France. However, if a historic building’s maintenance costs are particularly high, its assessed value may be lowered to reduce its owner’s wealth tax liability.

**Germany**

In Germany municipalities are obliged to give a property tax exemption to owners of protected buildings as their conservation is regarded as being in the public interest. This exemption applies as long as the property is used for cultural purposes, the property has been in family ownership for over 20 years and any income derived from a building is lower than the costs relating to its upkeep (i.e. they are a source of recurring loss) (www.european-heritage.net/sdx/herein/).
Ireland
All residential property is exempt from property tax (rates) in Ireland. No property tax concession exists specifically for protected structures although unoccupied commercial property is exempt from commercial rates, subject to the ratepayer providing proof (such as newspaper advertisements) of attempts to let the property.

Italy
All owners of buildings are deemed to receive property income, even where they do not lease the property concerned. The income is calculated on the basis of the average rateable value. Municipal property tax is payable annually at a rate which varies from 4% to 7% depending on the municipality concerned, and the tax base is proportional to the property’s rateable value. For listed buildings the rateable value applied is the lowest for the land register area in which the property is located (Hooper 2003).

Netherlands
There are no specific reductions in property tax for historic buildings in the Netherlands. However, foundations involved in restoration work to historic buildings are exempt from conveyance tax and protected buildings that are open to the public are exempted from wealth tax (Richel-Bottinga, 2001; McLeary, 2005).

Spain
In Spain historical and artistic monuments specifically declared to be ‘properties of cultural value’ are exempted from the payment of urban and rural annual contribution levies collected by municipalities (Calvo, 2001).

United Kingdom
In England unoccupied listed buildings, buildings subject to a preservation notice and scheduled monuments eligible for commercial use are exempt from the uniform business rate (a form of property tax based on the rental value of the property). This provision was designed to assist owners not receiving an income from a property to take action to maintain it.

USA
In the USA, the property tax system assesses the value of the underlying land of historic structures as well as the value of the improvements on a piece of property. Where a heritage building is located in an area zoned for high-rise construction, the development potential of the land beneath the building may exceed the market value of the existing structure. However, various property tax incentives have been designed to encourage action on historic buildings in the USA. For example, a property tax abatement programme in operation in Washington State excludes the increased value, resulting from residential and commercial building rehabilitation, from its assessed property tax value for 10 years - subject to the work following national rehabilitation standards and a public access requirement once a year (Beaumont, 1996). In North Carolina, locally designated structures receive a 50% reduction in property tax (Duerksen, 1983). State enabling legislation provides Maryland’s local governments with the option to establish rehabilitation property
tax credit programmes within the locally designated historic districts. There are two options available. The first option provides a property tax credit allowing property owners located within historic districts to deduct 10% of their rehabilitation expenditures from their property taxes. An alternative incentive freezes property tax at pre-rehabilitation level for a period of 10 years. A number of States (such as Maryland, New Jersey, New York and Texas) have also passed legislation to provide property tax exemptions and credits for 'qualified organisations' such as historical societies, non-profit organisations, government agencies, educational organisations and archaeological societies that are stewards or owners of historic property.

**Canada**

In Canada, the property tax burden as a percentage of market value is less for vacant land than it is for existing commercial or residential buildings. Thus, the inter-relationship between market demand, land use planning/zoning and the property tax assessment system provides owners with an...
incentive to demolish their buildings in order to avoid the higher tax burden associated with conserving heritage buildings. Moreover, tax revenue valuations do not recognise the excess costs associated with the repair of historic structures and the fact that when a building owner makes substantial expenditure for repair and rehabilitation may even increase the value for tax purposes.

Some municipal authorities offer tax incentives but this is not a general provision. An example of how this problem is being addressed may be indicated by a municipal property tax rebate system offered by the City of Edmonton, Alberta. Owners of designated heritage properties may be considered for three levels of compensation on the basis that:

Figure 11: The owner of the ‘Renaissance Revival’ style Union Bank Inn (1910), Jasper Avenue, Edmonton, Alberta, Canada received CD$205,944 in level 3A compensation on a total construction cost of CD$1.8 million to convert the former bank into a bed and breakfast establishment.
A building’s tax assessment may encourage demolition rather than rehabilitation;
- Cash flow may be restricted during rehabilitation;
- Owners may be penalised for rehabilitation through increased property taxes relative to improved market value following rehabilitation.

**Level 1 Compensation** was developed in response to situations where a building’s tax assessment encourages property owners to demolish heritage buildings in order to use the site as a car park. A rebate of the portion of property taxes relating to the building is provided for a maximum of five years. Property tax on the land element must continue to be paid in full. In essence, the property owner is paying property tax for a vacant site while in fact the building is still there. This protects the building from demolition but this does not encourage rehabilitation.

**Level 2 Compensation** was developed to alleviate the problem of restrictive cash flow to heritage property owners during rehabilitation by providing a two-year rebate on both building and land tax assessment.

**Level 3 Compensation** was introduced to prevent a situation where property owners are penalised for carrying out a rehabilitation of a heritage property as property taxes assessments increase substantially following completion of the rehabilitation due to increased market value. Any tax increase in property tax after rehabilitation is offset through a descending level of rebate over a five-year term. Then the building owner reverts to paying full property taxes. In effect, the City rebates the incremental tax portion.

**Level 3 Alternative Compensation** (Level 3A) was developed to give the City the option to pay for the restoration of architecturally significant portions of a building.

All levels of compensation require the instigation of a “compensation and maintenance agreement” identifying the amount and form of compensation to be paid to the property owner subject to agreed works and portions of building that will require continued maintenance in the long term. The maintenance agreement is attached to the title deeds of the property, along with the byelaw. This is an extremely powerful tool as it protects the building from demolition into perpetuity. To ensure that maintenance agreements are adhered to, the city is obliged to carry out annual inspections and five yearly reviews of designated properties for compliance. The City of Edmonton estimate that every CD$1 foregone in property tax under their property tax compensation programme creates approximately CD$14 worth of construction activity in the city (City of Edmonton, 1988; Fraser, 1997).
### Comparative Table: Property tax Incentives for the architectural heritage

#### Western Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Eligible Property</th>
<th>Exemption, abatement and freezing of property tax to encourage repair and punitive property tax to discourage neglect of the architectural heritage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Unoccupied classified monuments</td>
<td>Exemption from annual property tax (Brussels Capital Region) Punitive accumulative tax imposed on vacant and derelict buildings in City of Bruges (Flemish Region)</td>
</tr>
<tr>
<td>Denmark</td>
<td>Monuments included in preservation list where owner foregoes right to require state to purchase property in the event of demolition refusal (preservation declaration)</td>
<td>Exemption from property (estate) tax</td>
</tr>
<tr>
<td>France</td>
<td>Classified monuments; monuments included in supplementary inventory; and certified buildings; and conservation areas (General tax incentives also apply to repair and maintenance of non-historic property)</td>
<td>No property tax relief but a reduced liability to wealth tax may apply</td>
</tr>
<tr>
<td>Germany</td>
<td>Protected monuments used for cultural purposes, in family ownership for in excess of 20 years and showing a recurring loss relating to the cost of upkeep</td>
<td>Exemption from property tax</td>
</tr>
<tr>
<td>Ireland</td>
<td>All property</td>
<td>General exemption from commercial rates (property tax) for vacant commercial property (applies to protected structures although not designed for that purpose). All residential property exempt from property tax.</td>
</tr>
<tr>
<td>Italy</td>
<td>Protected Monuments</td>
<td>Lowest rateable value within the locality applies</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Monuments included in the state register of protected monuments; and monuments included in the municipal or provincial heritage ordinance</td>
<td>Foundations specialising in restoration work exempt from conveyance tax and limited exemption from wealth tax</td>
</tr>
<tr>
<td>Spain</td>
<td>Monuments of cultural interest</td>
<td>Exemption from urban and rural annual contribution levies (municipal levy)</td>
</tr>
<tr>
<td>UK</td>
<td>Unoccupied listed buildings, buildings subject to a preservation order and scheduled monuments in commercial use</td>
<td>Exemption from ‘Uniform business rate’ (property tax based on rental value).</td>
</tr>
</tbody>
</table>

#### North America

<table>
<thead>
<tr>
<th>Country</th>
<th>Eligible Property</th>
<th>Exemption, abatement or freezing to pre-rehabilitation level (state and municipal variations apply). Some states provide property tax exemptions for heritage organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>Monuments included in the federal or state register of historic places; and monuments included in a local preservation ordinance</td>
<td>Property tax exemption, abatement or freezing to pre-rehabilitation level (state and municipal variations apply). Some states provide property tax exemptions for heritage organizations</td>
</tr>
<tr>
<td>Canada</td>
<td>Monuments included in the National historic sites register; and designation of monuments with provincial, territorial or municipal significance where a compensation and maintenance agreement is attached to the property deeds</td>
<td>Property tax exemption, abatement or freezing to pre-rehabilitation level (provincial / territorial and municipal variations apply – but this is not a general provision)</td>
</tr>
</tbody>
</table>

Note: Variations in architectural heritage conservation policy may apply at different levels of government within decentralized and centralized countries
Value Added Tax (VAT) or Sales Tax Incentives

A reduced rate or exemption of VAT on the sale of goods (such as building materials) and services (such as the supply of services by conservation operators/building enterprises) could provide significant benefits to the architectural heritage. However, there are very few examples in Europe of VAT relief, despite the fact that this would provide a significant spur to encourage the upkeep of heritage properties. In some countries lower rates of VAT are applied in relation to dwellings, which may benefit those protected buildings used as homes. However it is rare for VAT relief to be provided directly to protected buildings (Council of Europe, 2003; Sell, 2003). Moreover, the opportunity to provide reduced rates specifically for historic buildings is limited by the tax harmonisation policy of the European Union.

i. Non heritage VAT exemptions

In Belgium the VAT rate is 21% but a lower rate of 6% is applied in relation to construction, renovation, rehabilitation, improvement and repair works to all dwellings that have been in use for more than 15 years. In France the standard rate of VAT is 20.6% but a lower rate of 5.5% is applied to all dwellings more than two years old. Similar provisions apply in Italy (standard rate 20%, lower rate for dwellings 10%, however no building age limit applies). For painting and stucco work to dwellings over twenty years old in the Netherlands a lower rate of 6% is applied (whereas the standard rate of VAT is 17.5%). In Ireland a lower rate of 12.5% is applied for general construction activity (standard rate 21%) and applies equally to buildings whether protected or not.

ii. Specific VAT exemptions for heritage buildings

In Spain and the United Kingdom there are certain specific exemptions from VAT for the protected heritage. In Spain all works to historic buildings are charged at a lower rate of 7%. In the United Kingdom a VAT exemption is applicable to materials and services supplied to execute alterations to listed buildings (protected structures) and scheduled ancient monuments provided that any alterations are approved by the relevant authority and that the requisite consents have been obtained. However, the conservation lobby has long regarded this as an anomaly as whilst it can encourage rehabilitation (in
approved circumstances), essential repairs and restoration work does not benefit from the exemption (Jeremy Eckstein Associates, 1999). Pressure to change from an incentive that may change the character of buildings (and a disincentive to undertake proper maintenance) has led to a partial change in the exemption provisions, albeit not for all buildings/structures. From 2001 an interim grant measure was introduced to cover the difference in costs between the standard of VAT at 17.5% to 5% for listed places of worship. In 2004 this relief on building repairs was extended to cover the full rate of 17.5% until 2006 and has since been further extended until 2010 with additional relief to cover professional fees and repairs to fixtures and fittings (Great Britain, Parliament, House of Commons, 2006).

iii. Sales tax relief in North America

In North America there are a number of examples of “Sales Tax” relief (equivalent to VAT). For example, the Canadian Province of Nova Scotia administers a sales tax rebate programme providing a rebate of provincial sales tax on building materials and labour used in the restoration of designated heritage buildings and properties located within Heritage Conservation Districts. The programme represents an acknowledgement by the government of the contribution made by the private property owner to heritage conservation. To ensure that good conservation practice has been adhered to, applicants must provide detailed receipts and supporting documentation for all projects (Brown, 1999). In the USA a number of States (such as Kentucky and Texas) provide certain types of sales tax exemptions whereby non-profit organisations owning historic properties are exempt from paying sales tax for materials used to rehabilitate or operate eligible property and also in relation to the collection of sales tax on admissions fees for opening such property to the public (Byrtus and McClelland, 2000).
## Comparative Table: Value Added (Sales) Tax incentives for the architectural heritage

<table>
<thead>
<tr>
<th>Country</th>
<th>Eligible Property</th>
<th>Eligible works</th>
<th>Standard VAT (sales tax) rate</th>
<th>Value Added (Sales) Tax Exemption/Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Western Europe</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Belgium</strong></td>
<td>Dwellings in use for more than 15 years (not heritage specific)</td>
<td>Construction, renovation, rehabilitation, improvement and repair work</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td><strong>Denmark</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>25</td>
<td>No concession for heritage</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>Dwellings more than 2 years old (not heritage specific)</td>
<td>Repair, maintenance and improvements</td>
<td>20.6</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>19</td>
<td>No concession for heritage</td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
<td>All property (not heritage specific)</td>
<td>Construction activity</td>
<td>21</td>
<td>12.5</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>Dwellings (not heritage specific)</td>
<td>Repair, maintenance and improvements</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td>Dwellings over 20 years old (not heritage specific)</td>
<td>Painting and stucco work</td>
<td>17.5</td>
<td>6</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>Registered property of cultural interest</td>
<td>All works (repair, maintenance and improvements)</td>
<td>16</td>
<td>7</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>Listed heritage buildings and scheduled ancient monuments</td>
<td>Alterations to listed buildings providing requisite consents obtained (excluding repair and restoration work)</td>
<td>17.5</td>
<td>Exemption for alterations. Places of worship entitled to grant covering difference in costs (including professional fees and repairs to fixtures and fittings) between standard rate 17.5% and 5% (until 2010)</td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td>Designated heritage buildings and buildings located within historic preservation districts</td>
<td>Labour and building materials used to rehabilitate or operate designated property</td>
<td>Various</td>
<td>Exemption / reduction varies by state.</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>Designated heritage buildings and buildings located within historic preservation districts</td>
<td>Labour and building materials used to rehabilitate or operate designated property</td>
<td>Various</td>
<td>Exemption / reduction varies by state.</td>
</tr>
</tbody>
</table>

Note: Variations in architectural heritage conservation policy may apply at different levels of government within decentralized and centralized countries
Sponsorship and Donation Incentives

Philanthropy has a part to play in funding the preservation of the architectural heritage through tax measures to encourage donations to be made by private individuals and also through corporate sponsorship. To encourage individuals, income tax relief can be given on sums given for this purpose and, similarly, businesses can be encouraged in sponsoring activity through relief from company taxes. Charitable and other non-profit organisations and foundations set up to support works to protected structures or to manage such property can benefit from this type of support. Some incentives for sponsoring specifically require that donations are given to a specialist foundation for heritage conservation. These types of organisations can play an important role in funding the architectural heritage particularly when state budgets are restrained.

These types of incentives can be illustrated by several examples from a number of countries:

Belgium
Tax relief for business taxpayers can be given for sponsoring heritage projects. Such sponsorship costs are fiscally deductible as advertising costs (subject to certain conditions). In addition, cash donations of between €250 and €500,000 per year to support work (but not day to day management) on heritage projects may be deducted from the taxable income of companies or individuals if the recipient is an institution specified by law or by Royal decree (for example, restoration projects carried out by the organisation Flanders’ Heritage), Goblet et al, 2001).

Denmark
Private companies in Denmark can set up a foundation to support charitable activities including heritage conservation activities (Lunn and Lund, 2001). These foundations may provide sponsorship in the form of top-up funding upon consideration of the percentage of state grant aid that the applicant has already been offered for an approved scheme of works. The fact that a proposed scheme is entitled to state funding provides security to the foundation that their funds are being spent on a worthwhile project. The Velux Window Company supports architectural heritage conservation projects in Denmark through such a foundation.

France
Sponsorship policy is well developed in France, which gives a good exemplar system. In a general context companies in France may deduct any unconditional paid sponsorship to projects and bodies of general public interest from their taxable profit. The legislation dating from 1987 distinguishes between expenditure incurred without consideration (gratuitous gifts) and expenditure incurred with consideration (sponsorship) where all cultural heritage expenditure is deductible from taxable profits when it is incurred for the direct benefit of the firm. Deductions are normally subject to an upper limit as a percentage of turnover; with a higher percentage applicable where the beneficiaries of sponsorship are public-interest associations or foundations. In the heritage context, the legislation provides that firms may deduct the charges incurred from net profits from the purchase or rental and maintenance of stately homes that are
classified, listed in the supplementary inventory of historic monuments or otherwise approved.

Firms wishing to develop their sponsorship policy can do this through several types of foundations which support various public interest issues including some which specialise in cultural, environmental and heritage issues. There are four types of foundations:

1. **Public interest foundations** (of a general nature).
2. **Enterprise Foundations** (to encourage commercial and industrial firms to sponsor culture, and more specifically the heritage, and to lend continuity to their sponsorship activities).
3. Foundation created under the aegis of the [Fondation de France](#) (to assist individuals, businesses and associations in the carrying out general interest projects of a philanthropic, cultural or scientific nature).
4. The [Fondation du Patrimoine](#) (Heritage Foundation)

This specific Heritage Foundation is a private-law body enjoying legal and financial autonomy and has the general task of conserving and promoting the local heritage. Its three main objectives are to enhance monuments or sites of regional interest which are not protected as historic monuments in order to attract public attention to them; to promote and support action to conserve or enhance the local heritage; to increase the number of monuments capable of becoming centres of attraction in the regions by promoting local initiatives. Since its establishment as an instrument for promoting local heritage (recognised by decree in 1997), the Fondation du Patrimoine has concentrated its operations on restoring the rural and vernacular with the scientific co-operation of architects and conservators of the historic monuments department. Types of rural heritage have been agreed for the purposes of specific tax relief provisions (Longuet and Vincent, 2001; [www.european-heritage.net/sdx/herein/](http://www.european-heritage.net/sdx/herein/)).

Owners of properties awarded the Heritage Foundation seal of approval may deduct some of their preservation project expenses from their taxable income. Eligible projects must be publicly visible, either from the road, or from the property itself if the building is non-residential and open to the public. Alterations to the building’s interior are not eligible, except where the property is non-residential and open to the public. The deduction equates to 50% of the share of expenses borne by the owner where grants received amount to less than 20% of the total cost of the work, or 100% of the share of expenses borne by the owner where grants received amount to at least 20% of the total cost of the work (Hooper, 2003; McCleary, 2005).

**Germany**

The establishment of foundations in Germany requires the permission of relevant Foundation Regulatory Authority (Stiftungsaufsicht) in the federal state where the organisation is based. The charitable or philanthropic status of such institutions is determined under German Excise Law (Abgabenordnung) (Flitner, 1997). These tax regulations specify that such
institutions will be freed from corporation (profit) tax, trade tax and land tax (but not purchase tax on property) if their purpose is exclusively to serve general welfare in a material, cultural or moral sense. The relevant state finance ministry determines the level of tax reduction applicable. Donations to foundations are usually given at 5% relief on income tax, but where the purpose of the foundation is cultural the relief is 10% (www.european-heritage.net/sdx/herein/). Thus donations made for the conservation and restoration of architectural can be set off against income and corporation tax at a rate of 10%. Tax deductions relating to large donations may be spread over several years. Since 1999, higher tax deduction amounts apply to donations made to foundations. For example, the Deutsche Stiftung Denkmalschutz (DSD) national foundation for the architectural heritage (which is part funded by the federal government) raises just under half of its yearly funding from private donations (Pohl, 1997; www.denkmalschutz.de/).

DSD was established in 1985 as a private trust with an initial capital of 500,000 DM (approximately €250,000) donated by 23 renowned companies to support the preservation and restoration of important cultural monuments. The foundation supports requests for assistance from monument owners and smaller specific building foundations such as for churches or castles (DSD has helped set up over 100 non-profit foundations). The aim of the foundation is to preserve endangered cultural monuments and to promote the idea of monument care through long-term maintenance and preservation (including their rehabilitation to new uses if carried out in a sensitive manner). It sets strict criteria for projects, which requires that its limited funds generate the greatest impact, i.e. where action on endangered monuments is not sufficiently guaranteed by government assistance or where the DSD funding could help lever other public funds. Social considerations may also be taken into account, such as the rehabilitation of protected buildings for community facilities, churches or for young people that the foundation chooses to assist, particularly in regions where assistance is most needed. Support is not only for the buildings but it is also for the people behind these buildings. The foundation manages private rehabilitation initiatives with cultural heritage and social aspects, such as providing employment.

The foundation has a large capital fund comprising capital assets (such as land and buildings and investments) and other assets including book stocks, publishing products and a cash fund. But it raises some of its funds from private individuals and companies who benefit from a provision allowing 10% tax relief on donations to cultural institutions. Over 150,000 private donors and companies have entrusted donations to the foundation over its lifetime (amounting to over €70 million).

Foundations in Germany do not pay taxes until a specified level of gain is made – at this level it is possible to support a limited holding company to work on a non-profit basis on buildings in need of action.

Ireland

Individual and corporate taxpayers are entitled to tax deductions relating to donations of money or property to non-profit eligible
charities including heritage trusts such as An Taisce – the National Trust for Ireland (established 1948). In 2006, the Irish government established the Irish Heritage Trust, a charitable body, with a mandate to acquire property of significant heritage value. In addition to the provision of government funding to establish an endowment fund, tax breaks will be made available for cash donations from private and corporate sponsors (subject to a cap of €6 million). Owners who transfer ownership of heritage property to the Irish Heritage Trust may continue to live in their property for their lifetimes in addition to receiving tax breaks.

**Italy**

Individual taxpayers may choose to donate 0.8% of their annual tax liability to the Minister of Cultural Assets to assist funding programmes for the restoration of important monuments (Gianighian 2001).

**Netherlands**

Cash donations and the transfer of property to non-profit heritage foundations and non-profit public housing corporations entitle individual and corporate donors to tax exemptions. Heritage trusts and foundations in turn fund heritage conservation activity including the purchase and restoration of historic property, continuous maintenance and provision of social housing. Examples of such heritage foundations include the Company for City Restoration ‘Stadsherstel’ Foundation (incorporating a for-profit limited liability company and a non-profit public housing corporation) and the idealistic non-profit Dutch Preservation Society ‘Hendrick de Keyser’. The structure and tax-exempt status of both heritage foundations is outlined in detail in the section dealing with income tax incentives in the Netherlands (supra).

**Spain**

Individual and corporate donations to beneficiary entities for the benefit of Spanish Historical Heritage Assets entitle donors to a tax deduction of 20%. Beneficiary entities include *inter alia* national heritage foundations, the state, autonomous regions, local corporations and the Church. Some autonomous regions have established their own tax deduction mechanism for heritage protection. For example, the Region of Murcia provides economic donation deductions for historical heritage preservation action in the region (Calvo 2001).

**United Kingdom**

Encouragement for philanthropy and private patronage to charitable organisations set up to support culture (including heritage) has been given through a simplified tax regime introduced by the UK government (DCMS, 2000). Since 2000 gifts of cash by individuals of any amount (subject to the limit of total tax liability) have been eligible for income tax relief and individuals may also make gifts of quoted shares without any tax liability on the value of the shares and with full income tax relief. Donations of cash by companies can also be set against accounts for tax purposes.

In the heritage context, there are a number of charitable organisations that may benefit from such charitable donations. The Architectural Heritage Fund is a registered charity founded in 1976 to promote the
conservation of historic buildings in the UK by providing advice, information and financial assistance in the form of grants and low interest working capital loans for projects undertaken by Building Preservation Trusts, which are usually registered as charitable organisations and act in a non-profit manner to repair and rehabilitate historic buildings, as well as other charities. The National Trust (UK National Trust 1895 and National Trust for Scotland 1931) is also a registered charity that owns and manages a significant number of heritage properties and relies on financial support from membership subscriptions (there are over three million members of the National Trust and 270,000 members of the National Trust for Scotland) as well as gifts, legacies and volunteer activity.

**USA**
Cash donations and the transfer of property to registered non-profit charitable heritage trusts and foundations in the USA entitle donors to tax exemptions. The level of deductions and

![Figure 12: Alderman Fenwick’s House (c.1723), Pilgrim Street, Newcastle Upon Tyne, UK restored and maintained by the Tyne and Wear Building Preservation Trust (Buttress). One third of the repair costs were financed by private charitable trusts and fund raising activities.](image-url)
allied regulations vary considerably in different states.

In some States, businesses are encouraged to own, use and rehabilitate historic properties through enabling legislation with the provision of specific tax credits and exemptions. Businesses that have offices in historic industrial mills in Rhode Island can claim a business tax credit for interest earned and paid on loans made for eligible business expenses or costs incurred in the rehabilitation of the mill and against the salaries paid to employees that work in the historic industrial mill. In Maryland financial institutions and public service companies can claim state franchise tax credit for undertaking a rehabilitation of a certified historic property. Corporations in Florida receive a community contribution tax credit for donations to approved historic preservation projects. Public corporations in Washington are exempt from paying an annual excise tax for certified historic structures (Byrtus & McClelland, 2000). A prominent example of corporate sponsorship is the Disney Corporation redevelopment of Manhattan’s Times Square through the renovation of the New Amsterdam landmark theatre. A number of states have also passed legislation in aid of organisations that are stewards or owners of historic properties. The legislation provides incentives for ‘qualified’ organisations such as historical societies, non-profit organisations and government agencies. For example, State property tax credits, deductions or exemptions are available for qualified organisations in Maryland, New Jersey, New York, Ohio, Texas, the Virgin Islands and Wisconsin (Beaumont 1996).

Tax-exempt state bond issues provide a very effective way to lever private investment into privately owned historic properties in the USA. Under the New Jersey State Historic Preservation Bond Programme, the state or municipal governments may issue their own debt in the form of bonds where the interest received on the bond is exempt from federal tax. The Green Acres Cultural Centres and Historic Preservation Bond Act (PL 1987, C265), approved by referendum, authorises the sale of state bonds to finance the acquisition and development of lands for recreational and conservation purposes and the restoration, rehabilitation and improvement of New Jersey’s historical resources ($25 million per issue). The bond issue provides a competitive grants programme and a revolving loan fund to assist ‘bricks and mortar’ capital heritage conservation projects. All funded conservation works must conform to the national standards for rehabilitation of architectural heritage buildings (Pickard and Pickerill 2002a).

Similarly, the State of Maryland has authority to sell tax-exempt bonds to the public in order to fund heritage conservation grant and loan programmes administered by the Maryland Historical Trust (State Historic Preservation Office for Maryland). The state heritage preservation tax credit programme provides Maryland income tax credits equal to 25% of the qualified capital expenditure costs in the rehabilitation of residential and income producing certified historic structures (provided the works conform with national standards for the rehabilitation of historic buildings). If the amount of the tax credit exceeds the annual tax liability of the taxpayer,
the excess credit may be carried forward for up to 10 years. If a rehabilitated structure is sold, the amount of unused credit may be transferred to the new purchaser. Furthermore, in the state of Maryland, local, state and federal historic rehabilitation tax incentives and credits can be combined on the same project. For example, in the case of income producing property, a developer can freeze property tax at pre-rehabilitation levels in addition to benefiting from the 20% federal tax credit and the 25% state tax credit. In effect, in addition to the property tax relief, the developer claims back 45 cents for every $1 spent. Homeowners are only entitled to a 25% state credit as they are not entitled to federal tax credit (Means,
Canada

Canada has a variety of heritage organisations, foundations and non-profit bodies registered as charitable trusts. Charitable tax receipts are provided for donations so that donors can reclaim income tax on the amount donated. Examples include, at the federal level, the Heritage Canada Foundation, which was created by the federal government as a non-governmental charity in 1973, and at the provincial level there are various similar charitable trust heritage organisations such as the Ontario Heritage Foundation. The principal activities of the latter foundation are to promote the importance of heritage conservation and to preserve and protect significant heritage sites including by demonstrating the adaptive reuse of heritage properties. As a charitable trust all gifts of money and the fully appraised value of gifts of property and heritage conservation easements benefit from income tax relief but this benefit can be reduced by a capital gains tax liability (infra) (www.heritagecanada.org).
<table>
<thead>
<tr>
<th>Country</th>
<th>Eligible individuals and companies</th>
<th>Tax deductible sponsorship / donations to recipient heritage organizations and foundations</th>
<th>Support for heritage conservation activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Individual and corporate taxpayers</td>
<td>Donations to institution specified by law or royal decree</td>
<td>Institutions in turn fund architectural heritage conservation activity</td>
</tr>
<tr>
<td>Denmark</td>
<td>Corporate taxpayers</td>
<td>Private companies can set up a foundation to support charitable heritage conservation activity</td>
<td>Foundation provides top-up funding to heritage projects already in receipt of state grant aid for approved works</td>
</tr>
<tr>
<td>France</td>
<td>Corporate taxpayers</td>
<td>Donations to cultural, environmental and heritage foundations</td>
<td>Foundations in turn fund architectural heritage conservation activity. Firms may also deduct the cost of purchase, rental and maintenance of classified monuments from taxable profits.</td>
</tr>
<tr>
<td>Germany</td>
<td>Individual and corporate taxpayers</td>
<td>Donations to cultural foundations (which are also exempt from corporation tax)</td>
<td>Foundations in turn fund architectural heritage conservation activity</td>
</tr>
<tr>
<td>Ireland</td>
<td>Individual and corporate taxpayers</td>
<td>Donations of money or legacies to non-profit eligible charities (including heritage trusts)</td>
<td>Charitable heritage trusts in turn fund architectural heritage conservation activity. Owners may maintain residency rights following transfer of ownership of property to the Irish Heritage Trust.</td>
</tr>
<tr>
<td>Italy</td>
<td>Individual taxpayers</td>
<td>Taxpayers may choose to donate 0.8% of tax liability to the Minister of Cultural Assets rather than the Church.</td>
<td>Minister of Cultural Assets in turn funds architectural heritage conservation activity</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Individual and corporate taxpayers</td>
<td>Donations of money or legacies to non-profit heritage foundations and non-profit public housing corporations (which may be part of a for profit heritage restoration company)</td>
<td>Foundations and housing corporations in turn fund architectural heritage conservation activity</td>
</tr>
<tr>
<td>Spain</td>
<td>Individual and corporate taxpayers</td>
<td>Donations to beneficiary entities (including national heritage foundations, government, autonomous regions, church) towards Spanish historical heritage assets</td>
<td>Beneficiary entities in turn fund architectural heritage conservation activity</td>
</tr>
<tr>
<td>UK</td>
<td>Individual and corporate taxpayers</td>
<td>Donations of money, shares and legacies to non-profit charitable cultural organizations (including heritage)</td>
<td>Charitable cultural organizations in turn fund architectural heritage conservation activity. Owners may maintain residency rights following transfer of ownership of property to the National Trust.</td>
</tr>
<tr>
<td>USA</td>
<td>Individual and corporate taxpayers</td>
<td>Donations to charitable trusts and foundations. Also, donations to tax exempt state enabled historic preservation bond programmes (state variations).</td>
<td>Proceeds of bond issue funds architectural heritage conservation activity. Some states also provide tax credits or exemptions to encourage the use and rehabilitation of historic buildings. Individual taxpayers may raise funds for historic rehabilitation projects by syndicating their income tax credits to corporate entities.</td>
</tr>
<tr>
<td>Canada</td>
<td>Individual and corporate taxpayers</td>
<td>Donations of money and legacies to registered charitable trusts and foundations</td>
<td>Trusts and foundations in turn fund architectural heritage conservation activity</td>
</tr>
</tbody>
</table>

Note: Variations in architectural heritage conservation policy may apply at different levels of government within decentralized and centralized countries.
Inheritance, Gift and Capital Gains Tax Incentives

Incentives from these tax mechanisms help to prevent the dismantling of private properties. This often occurs in the context of transfer of ownership resulting in a failure to maintain the monument, its abandonment or its repurchase by local authorities, thus adding to the burden of public expenditure on the heritage. A number of examples of incentives can be indicated:

Belgium
A classified monument transferred to the Brussels Capital Regional Authority or foundations with the legal status of an established public utility is exempt from inheritance and gift tax on condition that it is located within the Region (Goblet, 2001; McCleary, 2005).

Denmark
Denmark does not provide any allowances against inheritance or gift taxes for historic buildings (Hjorth-Andersen, 2004).

France
Classified monuments and those included in the supplementary inventory are fully exempt from inheritance and capital transfer tax, although this exemption is effective only where a standard agreement has been concluded between the state and the beneficiaries. In order to qualify, the owner must sign an agreement of indefinite duration with the State giving a number of undertakings (including opening the monument to the public, maintaining the monument, retaining and displaying integral fixtures and fittings and making the property available free of charge for local community events). If the conditions of the agreement cease to apply, capital transfer tax must be paid. Classified monuments held by family-run property companies constituted under civil law are also exempt from inheritance and capital transfer duties (www.european-heritage.net/sdx/herein/).

Germany
Exemptions and partial exemptions apply in relation to inheritance tax (and the same rules apply in relation to gift tax) on architectural monuments subject to the requirement that the income generated from the property is lower than the expenses incurred and conservation of the asset is in the public interest. However, the tax may be levied within a ten-year period if the conditions giving rise to the exemption cease to apply (including if the property is sold within ten years). This provides a strong incentive to retain property in private ownership and to do so with family continuity.

A full exemption is given to owners who voluntarily decide to open their building to the public and have opted to make the building subject to the relevant legislation on heritage conservation and the building has been protected or owned by the same family for at
least twenty years. Partial exemption (of 60%) is granted subject to the requirement that the owner allows access (as far as is possible) to researchers or the public. The inheritance tax base may also be reduced to take account of the constraints imposed on owners in relation to protected buildings. Compliance with the above criteria also entitles owners to an exemption from capital gains tax (turnover tax) (www.european-heritage.net/sdx/herein/).

Ireland
Exemption from inheritance and gift taxes is allowed for historic buildings approved by the tax authorities where reasonable viewing facilities are available to the public and where the property is retained by the successor for at least 6 years (Sell 2003).

Italy
Protected buildings are exempt from inheritance tax. However this tax advantage is removed if the property is sold within five years of the succession or if the heir fails to comply with legislative requirements on protected properties. Preferential tax treatment is also given for gifted property as it is subject to flat rate tax set at €130 (Sell, 2003).

Spain
All properties that qualify as “properties of cultural interest” under national law or are otherwise protected under the laws of autonomous regions are given an allowance equivalent to 95% of the value when assessing estate duties for inheritance tax (subject to the requirement that the heir is the spouse or a descendant) — the tax benefit is rescinded if the heir sells the property within a ten-year period. In some autonomous regions, such as Catalonia, for properties protected under regional law all heirs are granted the allowance.

Properties transferred by way of a lifetime gift to a spouse or descendant are also given the 95% allowance provided that the donor is at least 65 years old at the time of the gift and the beneficiary keeps the property for at least ten years (Calvo, 2001; Sell, 2003).

United Kingdom
An exemption from inheritance tax is provided in relation to a limited category of buildings of outstanding historic or architectural interest (for example, stately/large country homes) when passed onto a new owner. The property, which includes the house and any land that forms an essential part of its character (such as a designed park/landscape) must be certified as meeting the criteria. The new owner is required to provide reasonable public access and to undertake to maintain the building and grounds. Owners of approved buildings of outstanding historic or architectural interest may establish a heritage
maintenance fund for this purpose. Property transferred into these funds is exempt from capital gains tax and inheritance tax (Mynors, 1999).

The practice of transferring the ownership of property to the National Trust, particularly in the case of country homes, while at the same time allowing the owner to retain certain residency rights, has proved invaluable for the maintenance of such buildings. This approach has been adopted by the Pro Patronio Foundation, which is based in Romania (Council of Europe, 2003).

**USA**

Donors are entitled to charitable contribution deductions from federal estate (inheritance) tax for the donation of a full or partial (conservation easement) interest in an historic property to a qualified organisation such as a registered non-profit charitable heritage trust or foundations or a government entity. Federal gift tax or capital gains tax payable on property given or sold after it is placed under easement may also be reduced because of the property’s resulting reduced value. A conservation easement is a legal agreement that ensures the long-term conservation of the architectural heritage by prohibiting into perpetuity demolition or inappropriate alterations. A conservation easement may take the form of a façade easement or an interior easement. The value of a conservation easement is equal to the difference between the market value of the property before and after the granting of the easement (including any residual development value) (Watson and Nagel, 1995).

**Canada**

There is no inheritance tax applicable in Canada. However, there are few donations of heritage property in Canada, largely for tax reasons, because the federal government collects capital gains tax on donated real estate. Legal changes instituted in 1998 now allow donors to deduct 75% of the value of a heritage property donated to the national government or a charity against their net income (previously there was a more stringent regime) (McCleary, 2005). Similarly, the national government's tax policies do not permit deductions for donations made as part of heritage conservation easements, although deductible easements may be made for gifts of ecologically sensitive sites. There has been a campaign for the government to amend the Income Tax Act to eliminate the capital gains tax on donations of heritage sites to charities. This would make it attractive for an owner to donate a historic place to charity rather than to demolish it (on the assumption that the charity would assume the responsibility for ongoing maintenance or find an appropriate new owner who would) (Heritage Canada Foundation, 2007).
## Comparative Table: Inheritance and Gift Tax incentives for the architectural heritage

**Western Europe**

<table>
<thead>
<tr>
<th>Country</th>
<th>Eligible Property</th>
<th>Inheritance, Gift and Capital Gains Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Classified monuments and monuments included in a protection list (Regional variations)</td>
<td>Exempt inheritance and gift tax where property willed or gifted to the Regional Authority</td>
</tr>
<tr>
<td>Denmark</td>
<td>Monuments included in the preservation list</td>
<td>No concessions</td>
</tr>
<tr>
<td>France</td>
<td>Classified monuments and monuments included in supplementary inventory</td>
<td>Exempt from inheritance and capital gains tax subject to perpetual agreement with State relating to public access, maintenance requirements. No concession for gift tax.</td>
</tr>
<tr>
<td>Germany</td>
<td>Monuments included in the state registers of cultural monuments and buildings certified by a municipal authority</td>
<td>Partial exemption to inheritance, gift and capital gains tax where property income greater than expenses subject to public access requirement. Full exemption applies where additional 20 year family continuity requirement fulfilled.</td>
</tr>
<tr>
<td>Ireland</td>
<td>Monuments included in the national record of protected structures</td>
<td>Exempt from inheritance and gift tax subject to public access requirement and property not sold within 6 years of succession.</td>
</tr>
<tr>
<td>Italy</td>
<td>Monuments recognized as being of special cultural interest or buildings that qualify as national historic and artistic heritage</td>
<td>Exempt from inheritance tax providing property is not sold within 5 years of succession. A nominal flat fee is applied to cover gift tax.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Monuments included in the state register of protected monuments; and monuments included in the municipal or provincial heritage ordinance</td>
<td>Exempt from inheritance and gift tax provided recipient is a certified social and cultural organisation</td>
</tr>
<tr>
<td>Spain</td>
<td>General Register of Properties of Cultural Interest</td>
<td>Partial exemption from inheritance tax providing property is not sold within 10 years of succession. Partial exemption from gift tax where lifetime gift to spouse or descendant provided donor 65 years + and property held for 10 years.</td>
</tr>
<tr>
<td>UK</td>
<td>Buildings of outstanding historic or architectural interest</td>
<td>Exempt from inheritance, gift and capital gains tax subject to public access and establishment of a heritage maintenance fund</td>
</tr>
</tbody>
</table>

**North America**

<table>
<thead>
<tr>
<th>Country</th>
<th>Eligible Property</th>
<th>Inheritance, Gift and Capital Gains Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>Registered historic monuments (state and municipal variations apply in relation to recognition of historic property)</td>
<td>Charitable contribution deduction from federal estate (inheritance) and gift tax for donation of full or partial (conservation easement interest such as façade or interior) interest in real property to qualified organization (including registered heritage trusts and foundations)</td>
</tr>
<tr>
<td>Canada</td>
<td>Any land including heritage buildings where the owner has registered a restrictive covenant forfeiting rights to develop</td>
<td>No inheritance tax. Charitable contribution deduction from income tax for donation of a heritage property or a conservation easement interest in historic property to the government or recognised heritage trusts and foundations, but may be subject to capital gains tax</td>
</tr>
</tbody>
</table>

Note: Variations in architectural heritage conservation policy may apply at different levels of government within decentralized and centralized countries
Conclusions

The form and use of fiscal mechanisms designed to relieve the financial burden of private owners of historic buildings vary considerably from country to country. Tax incentives are more effective in encouraging investment in heritage conservation in countries with higher levels of private ownership. Countries with limited utilisation of tax advantages, such as the UK, usually have alternative funding mechanisms in place, such as direct grant aid.

While the legislation relating to categories of tax incentives in individual countries provide varied measures to lighten the curatorial burden placed on the owners of old buildings, most only relate to protected heritage structures. This has implications for the protection of the architectural heritage as government policy in some countries only allows the formal classification or protection of a very small proportion of architectural heritage buildings considered to be exceptional in historical significance. Furthermore, many countries classify or grade the level of significance of individual heritage monuments, and countries with federal administrative systems provide different heritage protection registers at federal, state and municipal level. In some cases, tax incentive eligibility requirements relate only to specific higher levels of protection classification.

Fiscal incentives offer an effective mechanism to encourage private investment in the repair and maintenance of the architectural heritage by owner-occupiers, owner-investors, developers and investors. The majority of countries examined allow the cost of repair and maintenance to historic buildings to be offset against income tax, the exceptions being Canada and the UK, although the UK government has recently acknowledged that there may be a case for limited relief set against income for private owners for the maintenance of historic buildings (English Heritage, 2006; Great Britain, Department for Culture Media and Sport, 2006; Great Britain, Parliament, House of Commons, 2006) and the case for such incentives has been made in Canada (PRA...
Inc., 2005; Heritage Canada Foundation, 2007). Eligibility requirements to enable owners to benefit from income tax deductions vary greatly with regard to public access requirements, the quality of work undertaken and allowable additional expenses (such as acquisition costs, insurance, alarm installation and provision of modern utilities). Variations also apply in relation to owner occupied and rented property. The income tax credit system in operation in the USA is arguably more generous than the system of income tax deduction prevalent in Europe. The tax credit system lowers the amount of income tax owed ($1 of tax credit reduces the amount of tax owed by $1) whereas the tax deduction lowers the amount of income subject to taxation.

Systematic maintenance is the most sustainable and cost effective intervention method in architectural heritage conservation as it negates the necessity for large scale publicly funded repair projects in the long term. The farsighted system of income tax relief for maintenance expenditure on protected structures in Denmark (BYFO) is noteworthy, although it cannot be used for improvements that would add to the capital value of the property. The reluctance of governments in some countries (notably Canada) to provide financial subsidies to cover ongoing maintenance costs for the architectural heritage has resulted in a situation where some owners refuse to carry out regular maintenance as it is more beneficial to let properties deteriorate and then repair the damage in large scale funded projects. The challenge for policy makers is to eliminate the economic factors that compel owners to defer cyclical maintenance in favour of major repairs stemming from neglect.

Property tax anomalies exist in many countries. This acts as a disincentive to sustainable conservation repair and maintenance activity. For example, where property tax assessments are related to market value assessments, heritage property owners are reluctant to undertake substantial repairs for fear of raising the market value assessment and thus the tax liability. A number of Western European countries have initiated various forms of property tax relief to give special recognition to heritage protection (Belgium, Denmark, France, Germany, Italy, Netherlands, Spain and the UK). In Canada architectural heritage is further threatened by the fact that the property tax is reduced for vacant property which actually encourages the demolition of heritage assets, although the City of Edmonton provides an exemplar system to remedy this situation. In the USA the zoned development potential of land beneath heritage buildings is assessed to establish property tax liability. This encourages demolition and redevelopment of heritage assets in areas zoned for high-density development. Many municipal governments in Canada and the USA have

The income tax credit system in operation in the USA is arguably more generous than the system of income tax deduction prevalent in Europe.
initiated property tax exemptions, rebates and freezes to combat this problem and specifically to encourage action on historic buildings.

An EU-wide campaign is taking momentum, among heritage lobby groups, to encourage unanimity among member governments to specifically recognise the regular maintenance and repair of the architectural heritage in the European Commission’s VAT Directive (thereby reducing the necessity for major capital restoration work). Most Western European countries examined levy VAT on works to historic structures at the standard rate with the exception of Spain and UK which provide some specific VAT exemptions for the protected heritage. Although not specifically directed towards architectural heritage conservation, some European countries charge a reduced rate of VAT for works to all dwellings (Belgium, France, Italy and the Netherlands) or general construction activity (Ireland) thereby indirectly benefiting conservation activity. Denmark and Germany do not provide any VAT concessions for works to heritage buildings. While the VAT treatment of listed places of worship in the UK is commendable, an anomaly remains in relation to the existence of a VAT liability for repair and maintenance but not for alterations to other listed buildings. Sales tax relief for heritage conservation is allowed in many Canadian provinces at provincial level but only relates to the provincial element of taxes (full sales tax is payable at federal and municipal level). While many state-enabled sales tax rebate programmes have been legislated for in the USA, only a small number of municipal governments have chosen to initiate them.

Inheritance and gift tax concessions or exemptions are available, subject to a variety of different eligibility requirements, in all of the countries under examination with the exception of Denmark (inheritance tax does not exist in Canada). France only makes allowance for inheritance tax but not gift tax exemption. Concessions from capital gains tax apply for protected heritage structures in Germany, but income tax free donations of property in Canada may incur a liability to capital gains tax.

Heritage sponsorship schemes enable individual and corporate taxpayers to make a charitable contribution deduction, based on financial gifts, legacies and transfer of property ownership to charitable and non-profit organisations such as heritage trusts and foundations. The charitable donation of a conservation easement (such as an historic building façade or interior feature) to a municipal government or a local area-based heritage trust or foundation is particularly important in the USA where federal, and some state, heritage regulatory policy is weak. However, apart from the subjective nature of the market valuation of conservation easement, they are also prone to tax complications. In order to alleviate cash flow problems, property owners undertaking historic rehabilitation projects in the USA may syndicate their entitlement to the federal and state historic rehabilitation income tax credit in order to receive prior to work commencing. Also, in the USA, local heritage conservation activity may be funded via state enabled tax-exempt bond issues.
Tax-exempt non-government organisations (NGOs), such as national and local heritage trusts and foundations with non-profit charitable status have a significant role to play in encouraging area-based sustainable architectural heritage conservation activity. Examples of heritage trusts and foundations include the Heritage Foundation (France), Deutsche Stiftung Denkmalshutz (Germany), ‘Hendrick de Keyser’ and ‘Stadsherstel’ Foundations (Netherlands), Heritage Canada Foundation (Canada), National Trust and Building Preservation Trusts (UK) and State Heritage Trusts (USA). The work of these organisations highlights the positive results that can be achieved by strong state and local authority commitment in partnership with regeneration agencies and voluntary action (including non-profit heritage bodies and committed local community representatives).

In periods of budgetary constraint, many national governments find it difficult to justify heritage fiscal incentives, on the basis that they represent a direct loss to the exchequer rather than an investment likely to procure a return. While only limited research has been carried out internationally to dispel such views, studies in the UK and the USA show that long-term conservation activities, involving the repair, maintenance and reuse of vacant or derelict architectural heritage, result in an increase in tax revenues to the government (English Heritage 2000); (English Heritage 2002); (Lipman, Frizzell & Mitchell 1998); (Listokin & Lahr 1997); (Listokin & Lahr 2001); (Rypkema 2000a); (Rypkema 2000b); (Rypkema and Wiehagen (2000). While it is true that new development could have taken place elsewhere, heritage repair projects have the added bonus of having a positive impact on the rehabilitation of derelict areas within traditional urban boundaries, creating a stimulus for housing and thereby negating the need for new infrastructure in the suburbs.

Despite the obvious benefits that can be achieved by policy makers in the utilisation of fiscal benefits to encourage a flow of private investment funds towards conservation activity, it is important to consider the positive and negative attributes associated with the introduction of such incentives.

...long-term conservation activities, involving the repair, maintenance and reuse of vacant or derelict architectural heritage, result in an increase in tax revenues to the government

From a positive perspective, heritage tax incentives are not coercive as they entice individuals and corporations to behave in socially desirable ways, but they do not compel such behaviour. This point must be qualified by the fact that such tax incentives are most effective when used in conjunction with a national architectural heritage regulatory policy to ensure the perpetual protection of important heritage assets. Heritage tax incentives are highly automatic as new incentives can be attached onto existing income tax collection procedures. Once the
tax laws have defined eligibility rules to reward specific kinds of behaviour regarding heritage conservation practice and methods for calculating benefits, tax incentives are available to all who qualify. This cost effective ease of administration by a generally well resourced arm of government makes tax incentives particularly attractive to policymakers. It is also worth noting that third-party providers, such as conservation architects and skilled craft workers, rely on the provision of tax incentives to foster demand for their goods and services (which in turn generates income and value added tax revenues to the government).

One very clear example of the positive attributes of tax incentives can be highlighted in relation to the innovative system of linking the ‘rehabilitation tax credit’ with a special low-income housing tax credit in the USA. This has induced many developers and traditional property investors to work in the heritage sector, often in partnership with community organisations (creating a social benefit), particularly in deprived downtown areas. Such action has been found to act as a catalyst to neighbourhood revitalisation. This is actually beneficial for the heritage and also for the local economy and society. It has created a market for investors to rehabilitate old buildings and protected structures for the particular purpose of providing good and affordable homes in historic buildings. Moreover, much can be learned from this approach particularly in countries such as the United Kingdom where the situation of affordable housing provision is acute. Work by English Heritage in supporting sustainable communities and encouraging the renovation of “low demand housing” in “pathfinder” designated areas is one step in this direction (English Heritage, 2005b).

A number of negative attributes to the use of fiscal benefits from the perspective of policy makers must also be identified. The main argument against tax relief measures generally is that they are inequitable as they only benefit taxpayers, and high-income earners in particular. Heritage tax incentives, like all tax incentives, are inequitable to the extent that their financial benefits flow primarily to affluent taxpayers such as developers and investors. Thus, tax incentives are distributed according to tax liability, rather than proportional need, as progressive income tax rates make the value of avoiding taxation greater for those in the upper tax brackets. Potential inequities of this nature can be resolved, for example, by allowing tax-exempt entities (such as non-profit charitable bodies) and low-income earners to receive a higher level of heritage grant assistance, as is the case in the Netherlands. Although not specifically implemented for the purpose of heritage conservation, the precedent of the tax credit rebate programme in the USA highlights the possibility of providing a rebate of earned tax credits to tax-exempt and low-income earners. Due to the indirect nature of heritage tax incentives, it is difficult for government policy makers to estimate how much tax incentives will cost and who will benefit from them, because the decision to claim incentives lies with the taxpayer. From a national accounting perspective, tax incentives have a low degree of visibility, but from an economic perspective they have a higher degree of visibility because it is possible to estimate the
economic or opportunity cost associated with tax incentives. While tax incentives provide a very visible gesture from governments to individuals and corporations, one of the chief criticisms of this mechanism is that it confers benefits on taxpayers for actions they may have taken anyway. Thus, it is difficult to determine exactly to what extent the introduction of tax incentives have affected the behaviour of taxpayers.

The ability of fiscal incentive schemes to encourage heritage conservation activity is hindered in countries with weakly regulated fiscal policies which allow routine legal tax avoidance mechanisms. Countries with a tradition of 'black market' economic activity (such as 'cash in hand' payments for repair and maintenance work) will also experience reduced effectiveness of fiscal incentives.

Despite the inequitable nature of tax incentives, they are increasingly put forward as an efficient and effective tool for encouraging private investment funds into conservation activity. There is a strong argument for providing specific tax incentives for the conservation of the architectural heritage in addition to more general urban renewal tax provisions (if available) as there is the danger that without such specific attention to historic resources the resulting renewal will be at the expense of the built heritage. Problems associated with tax incentives may be evidence of poor programme design (for example, offering income tax incentives to low income earners who are unable to take advantage of the incentive) rather than a structural flaw with the mechanism.

Tax incentives can be portrayed simultaneously as an extension and a retraction of government power, explaining why this tool is capable of generating support from a broad range of politicians. The rationale for policymakers to use tax incentives as a tool of government is based on the lack of coercion characteristic of tax incentives on the basis that greater choice leads to efficient economic outcomes. If used correctly, tax incentives can correct market failure and avoid costly and politically unpopular direct forms of government action. Political conservatives who embrace limited government favour tax incentives as they do not require the creation of new government bureaucracies. By contrast, political liberals gravitate toward direct government actions such as regulation and grants as the wealthy are more likely to benefit from tax incentives.
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John Weiler, Heritage Canada Foundation, Ottawa, Canada
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