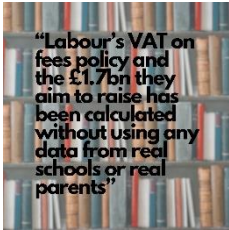
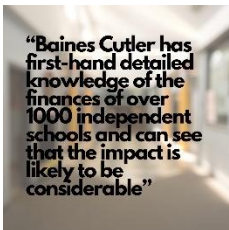


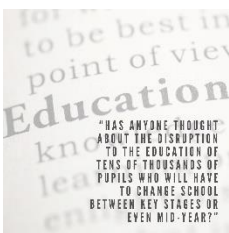
# 12 Things you didn't know about VAT – our campaign against an ideological policy



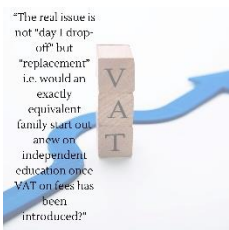
**1/12** Labour's VAT on fees policy and the £1.7bn they aim to raise has been calculated without using any data from real schools or real parents. The calculations are simply using national pupil number trends. The estimates of pupil number drop-off used by the Independent Schools Council and Baines Cutler are based on detailed surveys of family circumstances and household finances completed by tens of thousands of actual independent school parents through our parental affordability surveys.



**2/12** The Institute of Fiscal Studies' report which Labour are relying on to give credibility to their policy doesn't look at the finances of individual schools or at the finances of the sector as a whole. Yet it is being used to decide that the impact of VAT on both schools and their parents would be minimal, resulting in an only 5% drop-off. Baines Cutler has first-hand detailed knowledge of the finances of over 1000 independent schools and can see that the impact is likely to be considerable.



**3/12** Some parents will choose to leave the sector even if they don't have to – for example if their child's friend group is lost, class sizes are much larger through merger, or of course if whole schools close. Most people have not thought about this. This will increase the perceived elitism of the pupils and schools who are left. Also, has anyone thought about the disruption to the education of tens of thousands of pupils who will have to change school between key stages or even mid-year? Many children have already had their education badly upset by Covid – why deliberately upset this same cohort again?



**4/12** Many media commentators base their estimates of pupil drop-off on "playground gossip" i.e. whether specific families will choose to or have to withdraw their children. Whilst this might be of topical interest, it is likely that many families will do all they can to keep their kids in independent education once they have started – at least until their child's next key stage. The real issue is not "day 1 drop-off" but "replacement" i.e. would an exactly equivalent family start out anew on independent education once VAT on fees has been introduced? Such families will surely be much less willing or able to start out, and this lack of **non-replacement** is often missed out of the discussion.



**5/12** The use of national rather than local or school-specific data means that the proposed policy will impact schools and parents disproportionately. So wealthier schools or those already at capacity might be able to absorb some of the cost, and richer parents might be able to afford the VAT. However, schools of more modest means won't be able to absorb the cost, and parents of more modest means won't be able to afford a 20% price-hike on top of inflation. The policy is therefore strongly regressive – hurting schools and parents of modest means but impacting richer schools and parents less. For Labour to be proposing regressive rather than progressive taxation seems a negation of their core principles.

**6/12** The way VAT works will actually help richer schools at the expense of poorer ones. So wealthier schools build more – and so will be able to reclaim much of the input VAT back on this spending which they can't now. This means that some will have a much *lower effective VAT rate* than 20%. Poorer schools can afford to build less, and so will mostly have a *higher effective VAT rate*, at or close to 20%. Putting VAT on fees hurts the less well-off school the most.

“Putting VAT on fees hurts the less well-off school the most”



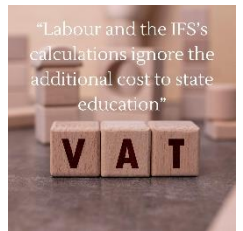
**7/12** Even if the parents in a richer school **were** all able to afford and then pay the VAT, amazingly Labour's policy will end up giving **additional** taxpayer subsidies to the most elite schools. This is because their parents will pay the VAT (which the school will just pass on to HMRC), but the school itself will then receive an additional subsidy from the government because they will be able to reclaim input VAT - which they can't now. So VAT on fees ends up with Labour giving an **additional** subsidy to elite schools – has anyone proposing the tax actually realised this?

“Labour's policy will end up giving additional taxpayer subsidies to the most elite schools”



**8/12** Labour and the IFS's calculations ignore the additional cost to state education - instead saying there will be only a 5% long-term pupil drop off and that this can be absorbed in existing budgets. A 5% drop-off following a 20% tax hike is completely counterintuitive, as any pupils leaving to go to the state sector will reduce the amount spent on each child. Therefore ALL children at state schools will actually be poorer.

“Labour and the IFS's calculations ignore the additional cost to state education”



**9/12** Labour/IFS say that VAT lost from pupils leaving the sector will be immediately and fully earned back by those parents spending on other vatable activities. This ignores the fact that the most usual things said to be foregone by independent parents i.e. housing and holidays are both non-vatable. They also ignore the fact that parents might simply save up the money e.g. pay for private tutors, save up for future university fees or for housing gifts for their children – again non-vatable.

“MOST USUAL THINGS SAID TO BE FOREGONE BY INDEPENDENT PARENTS, I.E. HOUSING AND HOLIDAYS, ARE BOTH NON-VATABLE”



**10/12** Why have independent schools been singled out? Universities are private charities providing education but no one is suggesting VAT on tuition, often paid by parents. And what about private tutors and private playgroups? It is easy to conclude that VAT on independent school fees is more based on pre-conceived notions of sector elitism, rather than a real understanding of the sector.

“VAT on independent school fees is more based on pre-conceived notions of sector elitism, rather than a real understanding of the sector”



**11/12** The VAT on fees policy will hurt the international competitiveness of UK independent education – a major area of “soft” influence for the UK. In virtually all other countries non-profit educational providers do not have to pay VAT on their learning offers. VAT on fees is a tax on the UK's international brand and offer, as many international students will simply go elsewhere.

“In virtually all other countries non-profit educational providers do not have to pay VAT on their learning offers”



**12/12** At present independent schools provide means-tested bursaries amounting to over 10% of total fees. Nearly all of this is paid for by other parents, and much of it is targeted at “transformational bursaries” of 50% or more, and/or for parents of very limited means. If VAT is levied on fees the obvious first response by schools is likely to be to reduce such bursaries and to pull back on their outreach and partnerships with the state sector. This seems to be very much an “own goal”. The policy is certain to exacerbate elitism and increase any state/independent divide.

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