

VAT in 10 Tweets

Dear Reader,

Below is a series of daily tweets we published in September 2019 to explain how VAT works and why Labour's policy of VAT on school fees would be so damaging to the UK's schools and children. The points would of course apply equally to any party which adopted this as its policy. VAT might seem (and it is!) boring but we now all need to understand it.

Please note that the full report on which these tweets are based can be found on the Independent Schools' Council website and we encourage journalists and those who wish to consider the subject seriously to read it <https://www.isc.co.uk/campaigns/tax/> However, for the layman, these 10 tweets provide a good summary.

Please feel free to circulate this document within schools, to Boards of Governors or to friends and family, so that everyone is better informed. Debating ideology is one thing (and of course quite appropriate in a free and democratic society), but pretending that VAT on fees will raise money when it actually cost money, is not.

Tim Baines, Rhiannon Cutler

29 September 2019

VAT in 10 Tweets

1/10 Labour's 2017 manifesto policy says it will raise £1.6bn VAT. The sector's fee income is £8bn so raising £1.6bn assumes despite fees being 20% higher NO PUPILS AT ALL WILL LEAVE. Whatever the real drop off this is clearly very naive economics. Not least, it is against the first principle of economics that, when the price of something goes up, the demand for it goes down. No evidence has been provided as to why this most fundamental economic principle should not apply to school fees.

2/10 If VAT was levied, Schools would be able to reclaim input VAT which they cannot now. So, the stated £1.6bn tax take falls by £400m the moment it's levied. Richer schools can reclaim more input VAT due to more capital expenditure. So VAT on fees is a regressive tax as it hurts poorer schools and poorer parents more than richer ones.

3/10a The only way to estimate drop-off is to know a lot about [@ISC_schools](#) finances and the parents who send children to independent schools. [@BainesCutler](#) has conducted the sector's main survey of school finances for 25 years and carried out over 100 parental earnings affordability surveys, looking at parental earnings, time pressures and the income sources parents use to pay fees. They also look at how these are changing over time. No one else carries out such surveys or has this information.

3/10b Independent School parents are a far more varied group of people than the media implies. Some are indeed rich, but many are not. 8% of pupils (50000) are on means-tested bursaries and over 1/3 receive some sort of fee support. Providing this support costs schools £1bn pa but if VAT was imposed the levels of support which schools could afford would contract sharply. So much of current fee support wouldn't be affordable with VAT.

4/10a Based on the research in 3/10a, if VAT was levied, 11% of pupils (57000) would leave ASAP as fees would simply not be affordable however much parents juggled their finances. 51000 more pupils would leave over the next 4 years as they reached the end of the next key stage – there is a lot of evidence to suggest that parents would do all they could to keep their children at the same school until the end of the next key stage. But an equivalent new family couldn't afford the fees and so wouldn't start independent education at all.

4/10b 5% more (26500) pupils would choose/have to leave since though their parents could actually afford the VAT, their chosen school had closed or its offering had been cut back so much that it was no longer attractive. So, in total, after 5 years, 25% of the sector (135000 kids) would leave and not be replaced by equivalent new families. These children would now need educating by the state.

5/10 If 135000 pupils leave, VAT of £498m which they would have paid vanishes. So the VAT tax take which started at £1.6bn (1/10) and which reduced by £400m (2/10) now falls to £702m. And that's before we even think about educating 135000 new kids in the state sector.

6/10a It would cost the state £6,310 to educate each leaver. This is a little more than the £5k average usually quoted for this cost, but this is because [@ISC_schools](#) have a higher proportion of senior/6th form children than in the country as a whole. Also independent schools are weighted much more to

London and South East, which as we all know is more expensive and so commands various cost premiums (most commentators miss these important points when doing their costings).

6/10b 135000 leavers costing £6,310/pupil will cost the government £850m pa. So, the VAT tax take which started at £1.6bn (1/10), and which reduced by £400m (2/10) and £498m (5/10) in fact now costs the taxpayer £148m pa. And that's before we think about new schools and classrooms.

7/10 135000 leavers need new classrooms, schools and equipment. Per Kreston (academies finance specialists) the capital expenditure required is £10k/pupil. So a total of £1.35bn is needed over 5 years which is £268m pa. If this is added to the £148m pa cost (as in 6/10b) a VAT on fees policy, instead of raising money, would actually cost UK taxpayers £416m pa.

8/10 There is one person employed for every 3 pupils. 135000 leavers = 45000 job losses. 18000 of these are teachers (and with current teacher shortages it would be hoped that many/most could get a new job), but the majority are cleaners, groundsmen, secretaries, dinner ladies etc who may find it much harder. VAT will hurt these people the most.

9/10a But most of all what about the children? Isn't education policy supposed to be about them? So, 135000 pupils will face significant upheaval with their education, friendship groups and lives overturned, often at key stages of their lives. Their first-choice state school may well of course anyway be full. When society is asking questions about the pressures children are facing and about their mental well-being, this could be very damaging. We are concerned that the ideology of a few people, stuck in a 1960's view of independent schools and their children, and focussing the whole debate on one or two schools (e.g. the #abolish Eton campaign), will hurt the many [@PSPReform](#)

9/10b And the chaos wouldn't just be for [@ISC_schools](#) children. Everyone's kids would end up being shunted around into larger classes, with educational budgets stretched yet further and huge disruption for example to catchment areas, 1st choice school preferences, house prices near top schools. And it would of course lead to lots more unregulated private tutoring.....

10/10 Thanks for following. Clearly in a free society debating ideology is entirely legitimate, but pretending that VAT on fees will raise money, when it will actually cost money, is in our view not.

Please circulate widely within your schools, work colleagues, friends & families so that we are all better informed.

Also, please follow us on Twitter at [@bainescutler](#) -our aim is to try to counter any false financial information we find in the mainstream media, to help provide more informed debate. Thanks for your interest.

