Opposition policy costing- VAT for Private Schools - Labour Party

Description of policy
The proposal is to end the VAT exemption for private school fees. '*We [Labour] will levy VAT on private schools and end their business rates exemption'***.** ('Breaking down the barriers to opportunity', The Labour Party, Labour.org, July 2023, link) ***'Labour says it would charge private schools 20% VAT, as well as ending business rates relief, to raise an estimated £1.7bn'*****.** (BBC news, 28/09/23, link)
Additional policy assumptions
Assumptions from Special Advisers This costing relies on the following five assumptions: • The definition of eligible bodies providing educational services who are exempt from VAT is amended to exclude private schools. • A range of costings should be produced assuming that 5%, 11% and 17% of the private school population transition to state funded provision. These assumptions are informed by the IFS Report ' Tax, private school fees and state school spending' and the ISC Report 'VAT on School Fees.' • 50% of students who move to state funded provision do so in the first year that the change is implemented, with the remaining students moving in the second year. • Average per pupil funding in England remains constant in real terms, with the resulting Barnett consequentials. • Existing VAT Capital Goods Scheme rules apply around reclaiming previous years VAT for new bodies who become eligible for VAT.
Additional technical modelling assumptions or judgements required
Tax base • Total private school fees in 2022-23 have been estimated based on pupil numbers and average fees in the ISC's 2023 Census. Numbers have then been uplifted to include non-ISC member schools based on information in Oxford Economics' 2018 report published by the ISC. • Adjustments are made to the above total to exclude fee assistance and local authority financed places at private schools. • • The resulting total is uplifted for 2024-25 using the OBR's forecast for Consumer Price inflation. Static costing

- Additional output VAT at 20% of the above figure is estimated to accrue to the Exchequer.

- This amount is adjusted to take account of input VAT recovered by private schools once the exemption is removed. The adjustment is based on information in the ISC census.

- This amount is then reduced by the overall VAT tax gap estimate of 5.3%[1] to allow for various forms of non-compliance.

- As is standard for VAT costings, where VAT is increased on one item, an adjustment is made to reflect reduced consumption on other goods and services and the VAT receipts that flow from that consumption. An adjustment has been made to account for this, based on OBR statistics which state that around half of household expenditure is subject to the standard rate of VAT.[2]

- The revenue is adjusted to reflect average historic capitalised expenditure as claimed under the Capital Goods Scheme.

<u>Behavioural and pass through related adjustments</u>

- Adjustments are made for the behavioural response of reductions in numbers of pupils at private schools using the three assumptions prescribed in the previous section.

- No adjustment has been made for possible incomplete pass-through of VAT to fees.

<u>Other Adjustments</u>

- In line with the second and fourth additional policy assumption listed above, public expenditure is adjusted to take account of student numbers moving from private schools to public schools.

- In line with the third additional policy assumption listed above, it is assumed that 50% of the pupil reductions would occur in the first year of implementation of the policy and the remainder in the second year.

- In line with the fourth additional policy assumption listed above, fees are assumed to rise over the forecast period by CPI inflation as forecast by the OBR at Autumn Statement 2023. State school expenditure per pupil in England is assumed to rise over the forecast period by the GDP deflator as forecast by the OBR.

[1] [Preliminary estimate of the VAT gap (tax year 2022 to 2023) - GOV.UK (www.gov.uk)]
[2] [VAT - Office for Budget Responsibility (obr.uk)]

- The overall spending cost is then calculated by applying the Block Grant Adjustment factor to the England expenditure.

Cost/Revenue to the Exchequer over five years

	Scorecard impact (£m, rounded)				
	2024-25	2025-26	2026-27	2027-28	2028-29
Low case[3]	+1,000	+650	+650	+700	+700
Mid Case[4]	+1,150	+900	+950	+950	+1,000
High case[5]	+1,250	+1,150	+1,200	+1,250	+1,250
	Of which tax revenue				
Low case	+1,300	+1,300	+1,300	+1,350	+1,350
Mid case	+1,350	+1,300	+1,350	+1,400	+1,450
High case	+1,350	+1,350	+1,400	+1,450	+1,450
	Of which spending				
Low case	-300	-650	-650	-650	-650
Mid case	-200	-400	-400	-450	-450
High case	-100	-200	-200	-200	-200

These estimates are based on the assumptions set out above and give a central estimate of the scorecard impacts in each case outlined.

Comparison with current system (if applicable):

Other comments (including other Departments consulted):

The calculations were carried out by HMRC (KAI).

The nature of this costing is uncertain and is driven by assumptions provided by Special Advisers. The key sources of uncertainty in this costing are:

[3] 17% of students move
[4] 11% of students move
[5] 5% of students move

- The proportion of students that switch from private school education to public school education; and - The speed with which this change occurs. We consulted the Department for Education to get figures on average spend per pupil in the state school sector.	
To be completed by Permanent Secretary's Office Date costing signed off:	22/01/2024
[If applicable] Date revised costing signed off:	