

FINANCIAL DIRECTOR Register | Update details

HOME | INTERVIEWS | BUSINESS NEWS | FEATURES | ANALYSIS | SURVEYS | COMMENT | SUBSCRIBE | JOBS

Hear from our panel of experts on forecasting and risk management in a volatile environment

Go to:
Resources
Articles
Events
Essentials

FSSS News Search Mobile

Financial Director > Analysis > Corporate Taxation Print Share Send to a friend Have your say

VAT increases is the 'odds on favourite' for raising revenue

06 Nov 2008

Profession expects PBR to contain a VAT rise, following Irish hike in the tax

Speculation that the standard rate of VAT will be raised is gathering pace ahead of the Treasury's release of the Pre-Budget Report (PBR).

The government's autumn tax statement is expected in the next few weeks, and with options limited, a VAT hike could be on the cards.

A recent move by the Irish government to increase its standard rate of VAT by 0.5% has only fuelled hype that a similar strategy will be adopted by the UK.

According to Marc Welby, VAT partner at BDO Stoy Hayward, much of the conjecture centres on chancellor Alistair Darling leaving himself with little choice but to either increase the rate or reduce public expenditure.

Any increase, however marginal, he said, would undermine current government objectives and instead stifle demand.

'If we are going into a deflationary cycle the last thing we want is for savings to be hoarded... an increase in VAT would be a disincentive to spend,' said Welby.

Richard Mannion, national tax director at Smith and Williamson, believes any increase in the standard rate of VAT is the most plausible option for the Treasury.

'It's number one on my list. It's odds on favourite,' he said.

Mannion points to the Irish government's abolition and subsequent reversal of free health care for the over-70s. The climbdown has now shifted the focus to other means for revenue raising.

He said there is a growing acceptance that in troubled times the public are prepared to pay more and that it is certainly the case in Ireland.

Smith and Williamson estimated that if the UK government were to increase the rate by 0.5% – taking it from 17.5% to 18% – it would generate £2.5bn for the Treasury.

'It is a good sum but I'm sure they'd need to raise more than that,' he said.

Ireland announced its VAT hike, from 21% to 21.5%, as part of the annual budget release.

At the time of the announcement, Richard Asquith, head of TMF VAT global compliance service, said he expects other countries to follow suit as the international trend sees a shift from business taxes to indirect taxes.

The real question is whether the chancellor decides to raise tax at all. He may decide that a borrowing splurge is the only space to get through a downturn, but VAT moves currently look the most likely revenue raising option.