

The Fiscal Effects and Social Mobility Constraints of VAT on Private School Fees: A Synthesis Analysis

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Abstract: As of January 2025, the government of the United Kingdom has eliminated the exemption from VAT for tuition fees for private schools, which will attract a 20% tax, and expects annual revenue of £1.6 billion. The advocates of the measure claim that the revenues can be reinvested into the system of public education to level the playing field and enhance social mobility. This paper presents the synthesis of fiscal (as well as behavioral) evidence in order to analyze the income stream. We find that fiscal revenue is great (an estimated net of £1.0715 billion, despite extreme changes in enrollment), but the burden of the new tax will be placed on the shoulders of the parents in the short run and may lead to deadweight losses in the long term. In terms of spending, the problem of lack of absorption of the SEND budget, inflation of service pricing, and diminishing returns of the pupil premium will reduce real resources. It is important to note that the decline of enrollment in private schools may be affected by demographic changes and other reasons unrelated to the new tax implementation. As a result, the requirement of social mobility is connected to four preconditions (additionality, inflation-proofing, high-return spending, and local capacity), which are not guaranteed by any institution. Therefore, it is necessary to create special policies to address these issues.

Keywords: Education VAT; Private Schools; Socio-Economic Mobility; Tax Incidence; Education Finance; Public School Capacity

1. Introduction

On January 1st 2025, the UK has removed the VAT exemption from private schools' fees and boarding services with foreclosing rules for advance payments [1]. According to the estimates of OBR, the annual VRT will be £1.6 billion [2]. The policy narrative sounds very simple: take away tax privilege → get revenues → spend them for state schools → increase opportunities of poor students → increase social mobility [3]. Nevertheless, there are numerous links in this chain, and each link is subject to behavioral reactions and institutional frictions. In the short-term demand for private education is inelastic; hence the tax is mostly passed to the parents [4]. Eventually, the increased elasticity will result in exits and DWL [5]. Besides that, even if all the revenues will go for education, they will not bring about efficient expenditures because of SEND pressure, costs inflation, and low marginal efficiency of some programs [6] [7] [8]. This paper aims to demonstrate that fiscal certainty does not guarantee social mobility gains; the latter depend on four institutional prerequisites that are not present now.

2. Fiscal Revenue and Behavioural Responses

2.1 Baseline Data and Step by Step Revenue Calculation

The baseline parameters were taken from the UK official figures and industry census data. The full calculation from the raw data to the central revenue estimate is given here in Table 1.

Table 1. Step-by-Step Calculation of Net VAT Revenue from Private School Fees

Step	Calculation Component	Formula / Method	Result	Notes
1	Average fee per pupil	$\text{£}10.241\text{bn} \div 614,449 \text{ pupils}$	£16,667 per pupil	ISC (2026) data
2	Gross VAT at 20% nominal rate	$\text{£}10.241\text{bn} \times 20\%$	£2.048bn	Before any deductions
3	Net VAT at 15% effective rate	$\text{£}10.241\text{bn} \times 15\%$	£1.536bn	Accounts for input deductions, boarding adjustments, SEND exemptions (Farquharson et al., 2023)

4	Less: consumption substitution loss	IFS estimate	£0.10bn	Parents reduce other taxable spending (Farquharson et al., 2023)
5	Preliminary net gain	£1.536bn - £0.10bn	£1.44bn	Before cross-validation
6	Cross-validation with official forecasts	OBR: £1.6bn; HMT Year 1: £1.5bn; HMT 2029-30: £1.7bn; IFS: £1.6bn	£1.6bn (central estimate)	All estimates converge closely (HM Revenue & Customs, 2024; Office for Budget Responsibility, 2024; Farquharson et al., 2023)
7	Average VAT burden per private pupil	£1.6bn ÷ 614,449 pupils	≈£2,767 per pupil	Foregone revenue per leaver, used in behavioral scenarios

The estimate of £1.6 billion is used in all scenarios hereafter.

2.2 Behavioural Scenarios and Net Fiscal Impact

Using IFS elasticity of enrolment assumptions (low elasticity 0.2, high elasticity 0.5 and

extreme elasticity 1.0) and 15% effective price elasticity increase, the switchers is calculated as: Switchers = 614,449 x elasticity x 15%

State marginal cost per pupil = £5,900 [9]. The net fiscal gain would be:

Net gain = £1.6bn - (switchers x £5,900) - (switchers x £2,767)

Table 2. Behavioral Scenarios and Net Fiscal Gains

Scenario	Enrollment Elasticity	Switchers (approx.)	Additional State Cost (£bn)	Foregone VAT Revenue (£bn)	Net Fiscal Gain (£bn)
Low response	0.2	20,000	1.18	0.55	14.82
High response	0.5	40,000	2.36	1.11	13.64
Extreme pressure	1.0	90,000	5.31	2.49	10.69

In the worst case scenario, where 90,000 children (roughly 15 percent of all private school children) will change to state schools, the net fiscal gain will still exceed £1.07 billion showing that fiscal robustness of the policy is not affected by individual behavior parameters.

2.3 Tax Incidence and Long Term Effects

In the short term, the tax burden falls on parents who see private schooling as a better option than the poorly funded public school system [10]. Although the tax may increase the psychological cost to parents, it does not necessarily bring about their immediate withdrawal from the system [11]. In the long run, with substitution options available, demand becomes more elastic and the tax burden shifts away from the parents to the schools, creating inefficiencies due to the loss of students leaving the system [5]. Therefore, the existence of revenue stability does not mean that welfare is neutral.

3. Expenditure Side: Three Erosion Channels

Full revenue transfer may happen to state education; however, real resources would be depleted.

SEND: A significant amount (43.5%) of the 2025-26 new school budget (£2.3bn) has been designated for high-need special education, leaving not much of the funding to conventional education [6].

Inflation: There is an inflation of 3.6% in

education, while the per-pupil funding increases at a mere 2.8%, thus resulting in a real loss of £69 per pupil (in reference to a baseline of £8,580). The calculation is simple: £8,580 × 2.8% = £240 of nominal gain; £8,580 × 3.6% = £309 of inflation; net change = £240 - £309 = £69 loss for one pupil [7].

Pupil premium gives diminishing returns: even with considerable money spent on this scheme every year, the gap in academic achievements between disadvantaged and non-disadvantaged pupils throughout GCSEs remains at 19.2 months [8] [12]. Money on its own will not bridge this gap unless it is paired with effective, evidence-based and targeted solution [13].

4. Enrolment Changes and Spatial Mismatch

The census conducted by the ISC shows a general reduction of 3.5% in the number of private enrolments and the number of international students dropped by more than 10.1% [14]. However, the cause of this decline cannot be accurately pointed solely to VAT as there are the influences of other online demographic factors plus the increase in the visa restriction policies that affect the study population. There is no counterfactual study that gives an accurate consideration of the policy alone [9]. On the national level, there is a surplus of available state school slots but these are found in population- declining areas whereas the majority of private schools are located within the

London and Southeast in the region. The localized migration could cause a number of issues, including the increased ratio in the number of students at state schools. The elevated marginal costs could negate some of the perceived benefits of the influx in students. At the same time, schools may be unable to accommodate a large number of students and problems could emerge [15].

5. Four Preconditions and Institutional Gaps

In order for VAT to achieve social mobility, four conditions must be met:

Additionality: There must be an increase in funding to education via VAT over and above existing education funding sources.

Inflation-proofing: In order to maintain real funding levels over time, budgets must be adjusted for inflation in education costs. This is currently not happening.

High-return on investment: Proceeds from VAT must be targeted to the most effective pre-determined interventions (e.g., funding early childhood education programs, providing targeted tutoring in the short term, and retaining teachers in underserved communities). There are no such predetermined priorities or requirements for evaluation.

Local Capacity Matching: The allocation of funds must align with where the kids move and compensate local governments for increased demands on their resources. That is not happening at present. Therefore, the opportunity for VAT to produce social mobility for students remains unfulfilled.

6. Conclusions and Policy Recommendations

Main findings:

Although the VAT reform contributes to significant fiscal returns (see Table 2), this does not essentially mean that fiscal success leads to progress in educational equity.

The revenue-mobility channel is disrupted by several factors including budget substitutes, inflation, SEND take up, low expenditure efficiency, and geographical discrepancies among regions.

The changes in enrollment between regions cannot serve as proof of observed mobility improvement driven by the policy.

Recommendations:

Develop a legally mandated additionality ledger to account for and track VAT related educational expenditures [1][9].

Implement an inflation adjustment provision which links education funding to inflation patterns [7].

Adopt evidence driven expenditure priorities (early years education, targeted assistance, and teacher retention) that will require impact assessments to measure effectiveness [16].

Provide for a local capacity fund that will facilitate real time responses to stressed local areas [15].

Until such time as the required institutional complements have been established, the assertion that VAT revenues resulting from private school tuition has a positive effect upon economic mobility remains a statement that poses a question of validity rather than a statement of fact.

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