

ESPAnet Title and Abstract

Dr Micheál Collins
School of Social Policy, Social Work and Social Justice
University College Dublin, Ireland
ml.collins@ucd.ie

Professor Andy Lymer
Aston University, Birmingham
a.lymer@aston.ac.uk

A Tax Break for the Poor? Examining the 0% VAT rate in Ireland and the UK

Value Added Tax (VAT) is one of the most far-reaching aspects of taxation systems, collecting revenue from almost all individuals and households irrespective of their means and age. In most countries VAT is in the top three sources of overall taxation revenue. Across Europe, states structure their VAT systems differently, ranging from simple systems with two rates to more complex ones with six rates. In a minority of countries (eight of twenty-seven examined by the EU in 2015) a zero per cent rate is imposed on certain goods and services. In these countries, the provision of this rate is a large area of (social) tax expenditure with many of these policy measures justified on the basis of social policy objectives.

This study examines the distribution of these fiscal supports in two countries with long-established zero per cent VAT rates: Ireland and the UK. It examines questions including: how do the consumption patterns of these zero per cent goods and services differ across households in the income distribution?; and do these tax reliefs benefit lower income households most (nominally and proportionally)? Estimates of cost and fiscal deadweight are also determined. The analysis uses data from the latest Irish Household Budget Survey and UK Living Costs and Food Survey.

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Micheál Collins, University College Dublin
Andy Lymer, Aston University
ml.collins@ucd.ie / a.lymer@aston.ac.uk

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Outline

1. Introduction
2. Context & Research Questions
3. VAT: revenue, structure & policy
4. Data
5. More VAT?
6. 0% Rate: initial insights
7. Next Steps...

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1. Introduction

- ▶ Joint project with Andy Lymer
- ▶ Phase 1 today...Ireland focus...
- ▶ Speaking to Themes of:
 - ▶ Tax, Tax Policy, Social Policy, Tax expenditure, Fiscal Welfare, hidden welfare state,...
- ▶ Link to '*The Centrality of Taxation to Social Policy*' (Ruane et al, 2020)

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2. Context & Research Questions

- ▶ VAT is one of the far reaching forms of taxation
- ▶ Frequent assessment of its visible impacts
 - ▶ **distribution**
 - ▶ UK: ONS / IFS / Bradshaw
 - ▶ Ireland: ESRI / Collins
 - ▶ **policy aims and impacts**
 - ▶ changes to stimulate demand etc
- ▶ Little consideration of its less visible impacts
 - ▶ what is not collected...
 - ▶ literature...

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Research Questions:

- ▶ Who Benefits from the 0% VAT rate?
 - ▶ does it favour lower income households?
 - ▶ how much does it cost?
 - ▶ is this a good use of resources?
- ▶ Are there differences / similarities between UK and Ireland
- ▶ What might a reform look like?
 - ▶ Brexit...

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3. VAT: revenue, structure & policy


Figure 36.1 UK taxation revenue by source, 2019/20 (£ billion)

Source of tax revenue	£ billion	%
Income tax	194	26%
NICs	145	20%
VAT	134	18%
Corporation tax	50	7%
Council tax	36	5%
Business rates	29	4%
Fuel duty	28	4%
Stamp duty	16	2%
Alcohol duty	12	2%
Capital gains tax	10	1%
Tobacco duty	10	1%
Vehicle excise duty	7	1%
Inheritance tax	5	1%
Other taxes	69	9%
Total taxes collected	743	100.0%


Table 4.3 Structure of Ireland's Taxation Revenue, 2019

	%
Income Tax (including USC)	29.6
Social Insurance (employee and employer)	20.4
Value Added Tax	19.5
Corporation Tax	14.0
Excise Duties	7.7
Local Authority Rates	2.0
Stamp Duties	2.0
Capital Gains Tax	1.4
Motor Tax	1.2
Capital Acquisitions Tax	0.7
Local Property Tax	0.6
Carbon Tax	0.6
Customs	0.5
Total	€77.611m

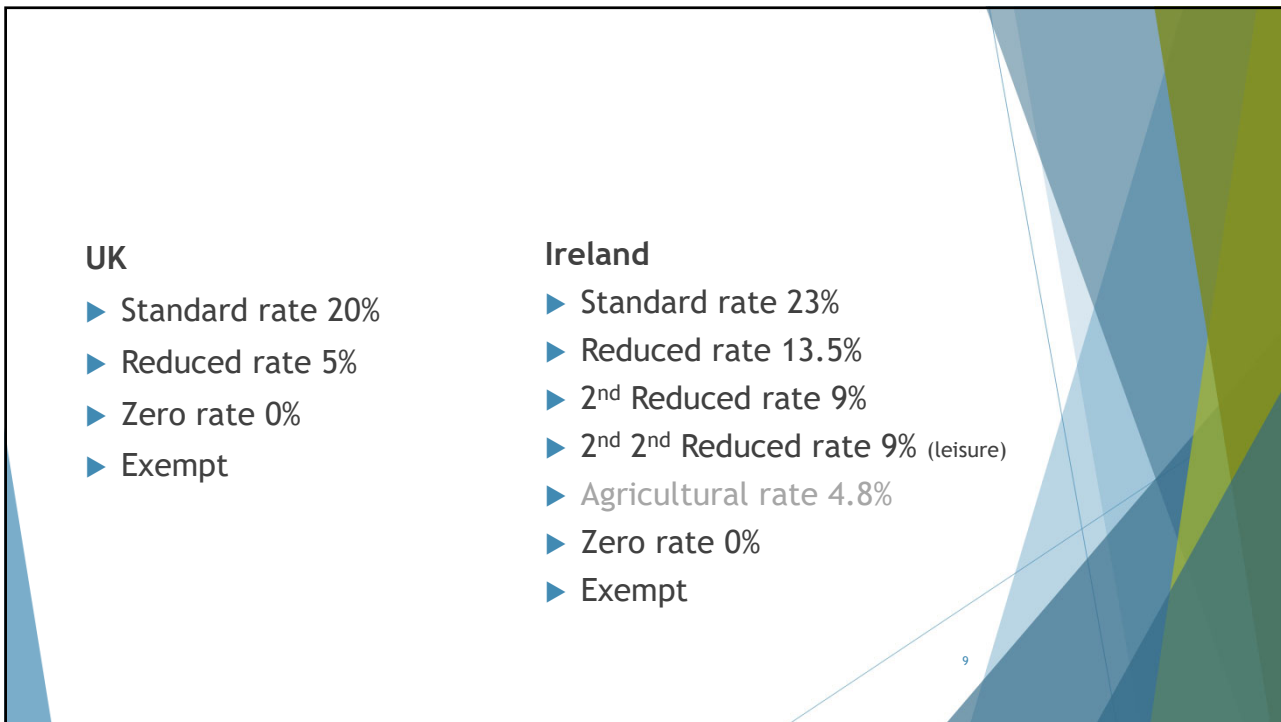
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- ▶ Europe-wide VAT structures differ:
 - ▶ **Simple structure:** 2 rates (+ exemptions)
 - ▶ e.g. Denmark, Netherlands and new EU member states
 - ▶ **More complex:** 3 or 4 rates (+ exemptions)
 - ▶ e.g. UK, France, Spain, Austria...
 - ▶ e.g. Finland, Italy, Malta...
 - ▶ **Really complex:** 5 or 6 rates (+ exemptions)
 - ▶ e.g. Belgium, Luxembourg
 - ▶ e.g. Ireland

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- ▶ All countries have **exemptions**:
 - ▶ goods and services deemed to be not subject to VAT
 - ▶ Not all have **0% rate**:
 - ▶ EU (2015) study: 8 of 27 states
 - ▶ Belgium, Denmark, Ireland, Italy, Malta, Finland, Sweden and UK

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UK

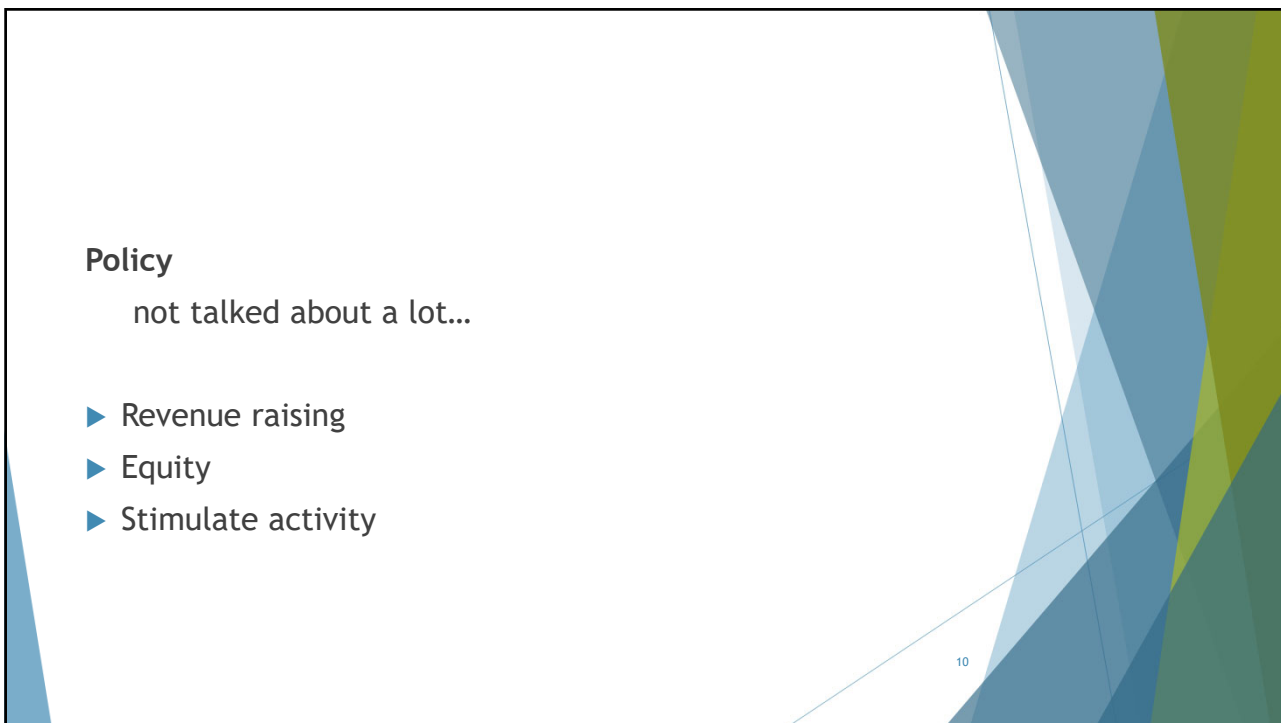
- ▶ Standard rate 20%
- ▶ Reduced rate 5%
- ▶ Zero rate 0%
- ▶ Exempt

Ireland

- ▶ Standard rate 23%
- ▶ Reduced rate 13.5%
- ▶ 2nd Reduced rate 9%
- ▶ 2nd 2nd Reduced rate 9% (leisure)
- ▶ Agricultural rate 4.8%
- ▶ Zero rate 0%
- ▶ Exempt

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Policy

not talked about a lot...

- ▶ Revenue raising
- ▶ Equity
- ▶ Stimulate activity

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Policy

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Cost as Revenue Forgone

- ▶ Tricky
 - ▶ from 0% to the standard rate
 - ▶ from 0% to reduced rate
 - ▶ (from 0% to a hybrid revenue neutral rate)
- ▶ HMRC have estimates for UK
- ▶ Revenue Commissioners do not have ones for Ireland

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4. Data

- ▶ Irish Household Budget Survey (HBS)
 - ▶ UK equivalent - *Living Costs and Food Survey*
- ▶ Central Statistics Office (CSO)
 - ▶ 2015/16
 - ▶ 6,839 households
 - ▶ microdata
- ▶ Coded all 517 expenditure items/services
 - ▶ VAT category, excise, levies...
 - ▶ equivalised, deciles,...
 - ▶ model...

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5. More VAT?

- ▶ Covid-19 context
 - ▶ more recurring taxation revenue = unavoidable
 - ▶ from where?
- ▶ VAT should be no different to consideration for most other taxes
 - ▶ increase rates
 - ▶ reduce exemptions (broaden base)
 - ▶ or both

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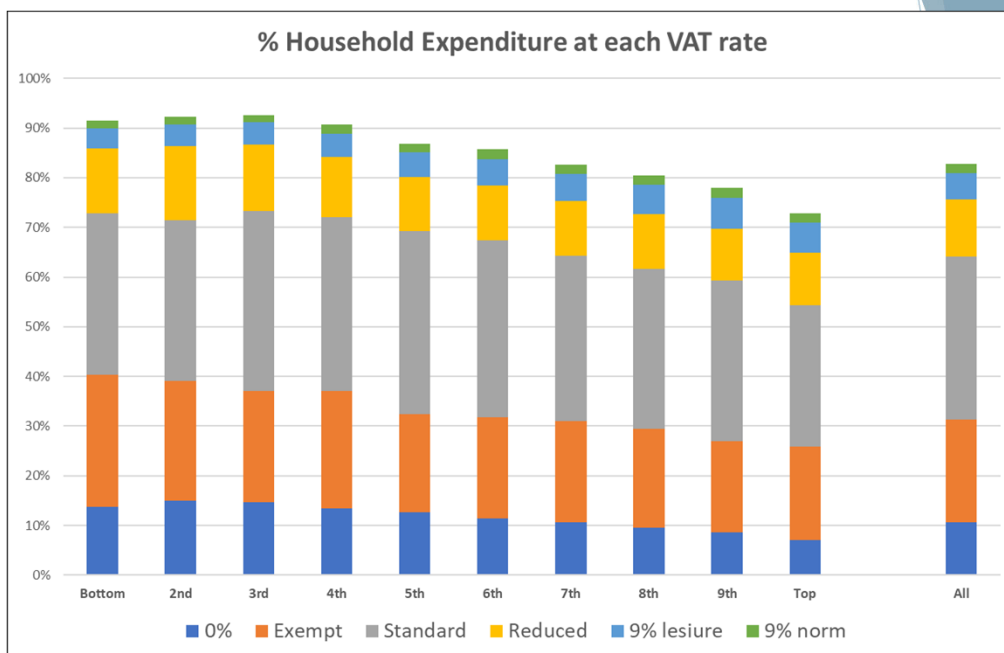
6. 0% Rate: initial insights

- ▶ An Irish story
 - ▶ given VAT structures and household consumption patterns, do not expect that UK results will be very different for 0% and exempt VAT categories

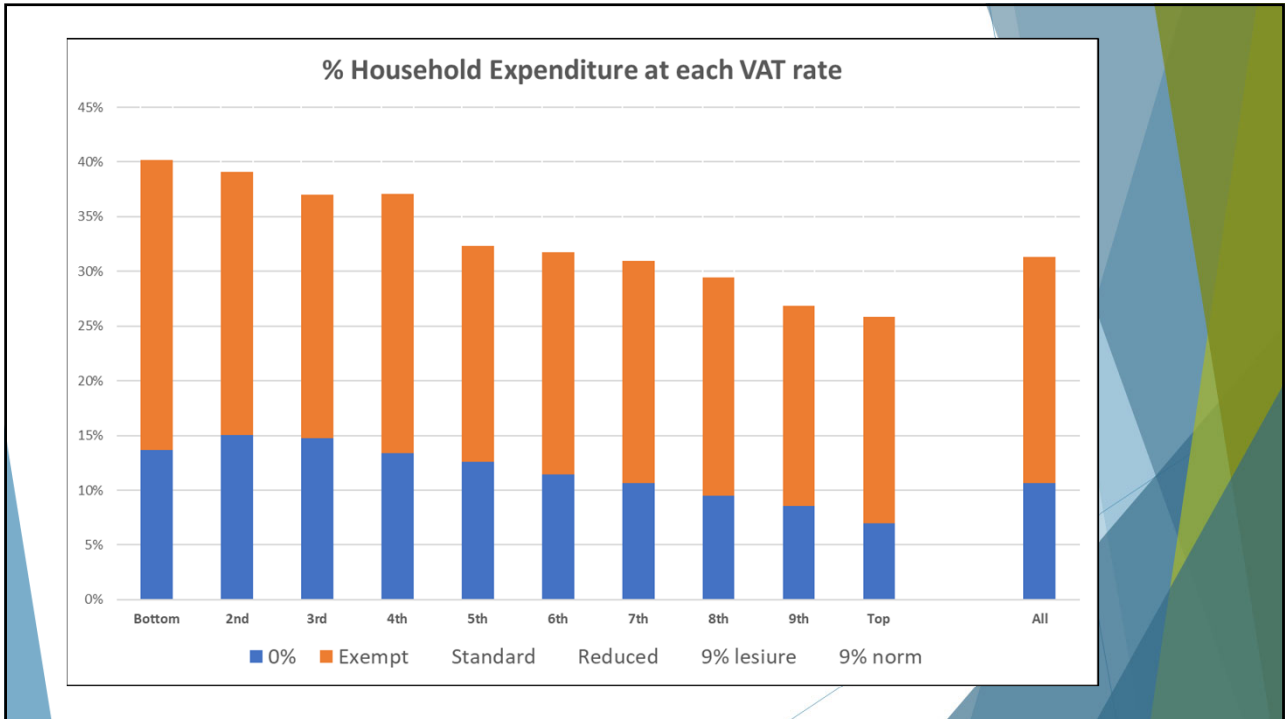
- ▶ Results for:
 - ▶ equivalised gross income deciles & all
 - ▶ composition of expenditure first
 - ▶ nominal expenditure at 0% by expenditure category

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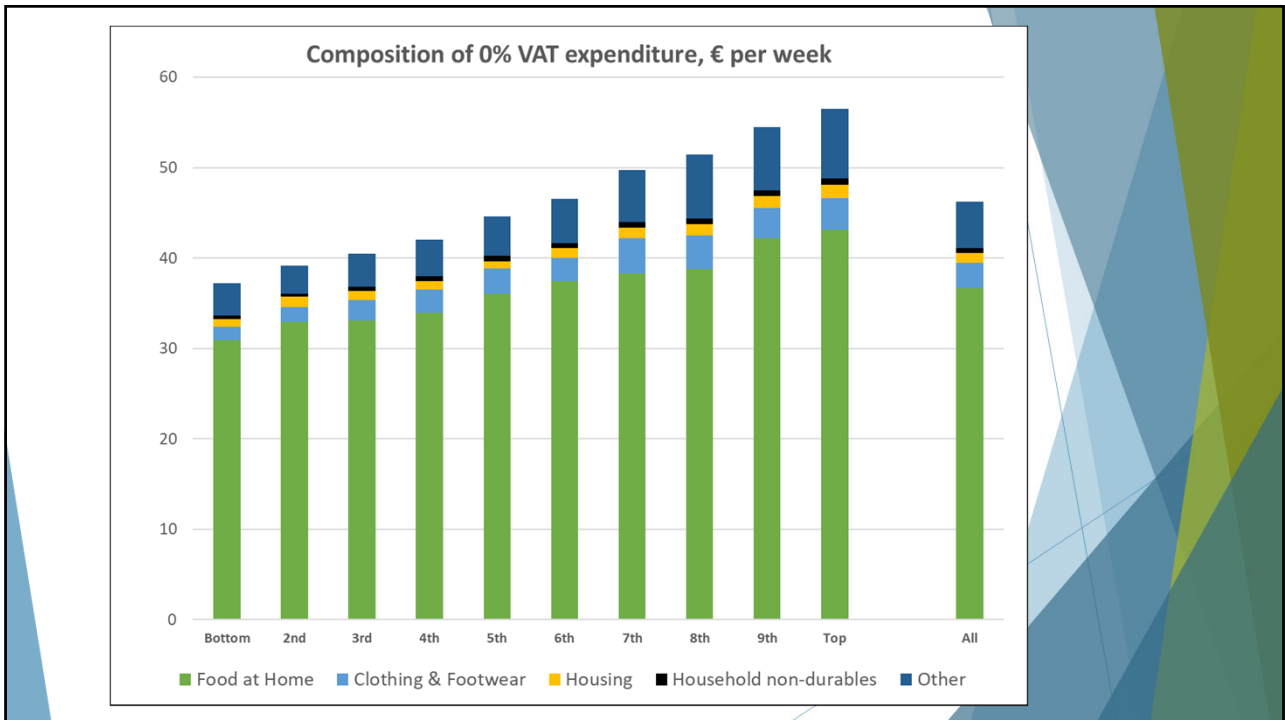
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- ▶ A tax break for the poor?
 - ▶ Progressive relative to household expenditure (just)

- ▶ Big deadweight cost

For bottom quintile - for every €1 of tax relief it receives...

<i>the top quintile gets:</i>	€1.45
<i>the average individual gets</i>	€1.21

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6. Next Steps

- ▶ Refine Ireland analysis
 - ▶ mortgage payments, children's clothing and footwear
- ▶ Extend to UK Living Costs and Food Survey
- ▶ Comparisons
- ▶ Policy issues:
 - ▶ equity
 - ▶ more on the deadweight cost
 - ▶ revenue raising options
 - ▶ alternative approaches

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