

VAT increases - and a whole new host of problems will r...

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I've just been interviewed by The Times on the VAT increase to 20%, happening tonight. They seemed keen to know of my views.

Let's be clear, the number one problem with this change is it is regressive. I know the Institute for Fiscal Studies say VAT is not regressive - but they only get to that absurd position by arguing that regressiveness is assessed against spending and not income and by saying regressiveness should be measured over a lifetime - a claim only neoliberal economists could make. By all proper measures of regressiveness VAT is regressive and always will be. So this is a tax change that hits the poorest and middle income earners hardest in our society, and that's the wrong policy decision when just about every other change the ConDems have announced has exactly the same impact.

Second, this increase will encourage VAT planning. Abuse [through the Channel Islands](#) will increase, for example. This imposes a real cost on the UK economy.

Third, tax evasion will increase. HMRC's own data suggests VAT has an error rate of around 13% inherent in it - twice the rate they say income tax and NIC suffers. This is a tax based on their own data prone to abuse. In that case why increase it when tax evasion is already an issue?

But most of all the big issue is the economic one - and that is the last thing our economy needs now is money sucked out of it when what is really needed is a boost to make sure that more jobs are created so more people are at work and paying tax to ensure that the government can pay its way. This measure has the exact opposite effect. It takes money out of the economy and drains demand from it, meaning that it is bound to be recessionary.

As a policy measure this one is a disaster in the making - and one every household will see as prices go up. If compounded by an interest rate rise because the Bank of England then thinks it has to tackle the resulting inflation it will be even worse.

Right now it is hard to imagine any more misguided tax policy. But George Osborne has

delivered it, all the same. Yet another sign of a lack of economic competence I am afraid.