

What to do about VAT?

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Some people have noted my criticism of [Michael Gove's plans for a 'simple sales tax'](#) to replace VAT and have said that maybe he has the right idea since VAT is regressive, as I have always argued.

They are right, of course. Contrary to [what the Institute for Fiscal Studies say](#), VAT is regressive and there is virtually nothing that can be done to completely correct this within the design of that tax. Within the tax system as a whole that issue can be addressed, and should be (but it is not at present). But VAT is regressive.

And so, let's for the record make clear that a sales tax seeking to collect the same sum for the Treasury will also be regressive. And a simple sales tax - which is bound to be a fat tax on all sales, irrespective of what they are of - will be even more regressive. In other words, a sales tax does not solve this problem.

Those who say that the purchase tax that the UK had before it joined the EU and which it had to give up when joining what was then the EEC, would be better. It was more selective in its application. But that tax created its own, massive issues, because rates varied enormously and that always creates boundaries between products and all boundaries in tax can be abused. I would, as a result, not agree with those suggesting this tax. I also think it has all the inherent weaknesses of a sales tax within it.

So what's the solution? There are two. One is a VAT with more progressive tax rates. This would mean that some goods now subject to a standard rate would carry higher rates of VAT, as happened in the UK for a number of years under Margaret Thatcher (rather surprisingly). And of course, some more items could become zero-rated. So long as the rest of the tax system was still progressive to compensate, and so long as generous benefits are paid (which is how Scandinavian countries create overall progressive systems despite VAT rates higher than those in the UK) then I could live with this.

The other option is more radical. It is what I have called a Carbon Usage Tax, although it is in fact a tax on the flow of funds through people's bank accounts. This overcomes

the inherent weakness in VAT which is that it is on consumption alone and it is inevitably and always the case that the best off spend less on consumption as a proportion of their income than do most in the population. This is, after all, why they are the best off. [This tax is explained here](#). In essence it would apply a progressive charge to all flows through a person's accounts in a month, corrected annually to establish a final charge. The rates would be very low, but progressive i.e. the larger the flow the higher the rate. A significant annual allowance would be permitted. It would exclude many from the charge. Transfers between accounts under common control (which would need to be tightly defined) would be excluded, but not much else would be. And for those tempted to spend using offshore accounts, offences to cover avoidance, with the opportunity for HMRC to assess an alternative sum owing instead, would have to be enacted. But this would be progressive by design, and would work simply because very few big transactions are paid in cash. But I would not suggest it instead of VAT. I would, in any case, prefer it replaced employers' national insurance, which I think more harmful to the economy than VAT.

I am open to their suggestions. But remember we do need £140 billion.

And please do not say land value taxation, because it will not come anywhere near that sum when it would also have to replace council taxes.

The floor is yours.....