

Removing the VAT exemption from financial services coul...

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The Taxing Wealth Report 2024 is about the way in which tax in the UK can be transformed to raise revenue the government might well need from those best able to pay it whilst simultaneously reducing the inequality that the current system of tax in this country promotes as a result of the bias within our tax system towards those with wealth.

There are some obvious ways in which this bias is apparent to almost anyone looking at that tax system. I have already addressed one of these [in my first recommendation for change](#). This was to scrap the obviously unjust tax relief on pension contributions at higher rates of income tax provided to those who are already likely to be amongst the more wealthy in this country.

The Taxing Wealth Report 2024 is, however, seeking to suggest changes that move beyond the obvious and familiar demands, although it will inevitably address most of these over time. In that case, the second recommendation being made is one that few might expect, and is [to withdraw the VAT exemption enjoyed by financial services in the UK](#):

The Taxing Wealth Report 2024	Every politician's guide to "How to pay for it"
Value added tax reform: Abolishing VAT exemption for financial services	

As [the report summary](#) says:

Brief summary

This note suggests that:

- * Reform of the UK taxation system to ensure that those with the highest incomes and wealth pay their fair share of tax does not only require that direct taxes (income tax, national insurance, corporation tax, capital gains tax and even inheritance tax) be considered. It also requires that the role of indirect taxes (such as value added tax) in creating inequality as a consequence of their unreasonably subsidising the consumption of the wealthiest in society should also be taken into account.
- * The VAT exemption that the financial services sector enjoys means that this tax is not charged on the supply of financial services to those who consume them in the UK.
- * The UK Office for National Statistics estimates [\[1\]](#) **that 48.6% of UK wealth is owned by the top 10% of wealth owners and 67.4% is owned by the top 20% per cent of wealth owners. In that case the benefit of this VAT exemption is going almost entirely to those in the higher echelons of wealth owners, and most likely of income earners.**
- * **In that case the withdrawal of this relief, which has been made possible by Brexit, should now take place.**
- * **The withdrawal of this relief would, according to HM Revenue & Customs, result in an additional £16.3 billion of tax revenue being raised a year. Against this must be offset the tax lost from insurance premium tax if VAT was to be applied to that sector. This would amount to £7.6 billion, leaving a net sum of £8.7 billion of VAT to be recovered. That change with regard to insurance premium tax is likely to be neutral with regard to those on lower incomes.**

Discussion

This suggestion is, of course, only possible because of Brexit. Since, however, the UK's two largest political parties seem to have no intention of returning the UK to the EU, it seems opportune to make a suggestion that exploits that fact.

Unsurprisingly, most financial services products are consumed by those with wealth. The exemption of financial services from VAT charges does, therefore, inherently favour those with wealth in the UK by reducing the cost to them of buying these services, whether directly or indirectly, for example, via their pension funds.

As the recommendation notes, this suggestion would also extend VAT to insurance products. However, these are already subject to insurance premium tax to reflect the fact that they are not subject to VAT. If the VAT exemption was removed the cost of supplying many insurance services would fall, thereby reducing the cost of them before VAT was applied. As such, so long as insurance premium tax was abolished at the time that this change to VAT exemption was made this change, which could otherwise have an impact on those on lower incomes, is unlikely to have any significant impact on their well-being.

The likely revenue raised by this change would be £8.7 billion based on HM Revenue & Customs data and estimates. This means that the first two Taxing Wealth Report 2024 proposals might raise £23.2 billion between them.

The [note on which this blog post is based is available here.](#)

Footnotes

[1]
<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018toarch2020>