Office for
Budget
Responsibility

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Supplementary forecast information release

VAT: Standard-rated share of consumer spending

1.1 The OBR is releasing this information following a request for further detail on the information presented in our March 2019 *Economic and fiscal outlook (EFO)* and in our July 2019 *Fiscal risk report (FRR)* in respect of the 'VAT standard-rated share'. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.

1.2 VAT (value added tax) is levied on the purchase of many goods and services. It is reflected in the price paid when items are bought and is collected from traders. Unlike a simple sales tax, it is levied on the amount of value added at each stage of the production chain. The standard rate is 20 per cent, with around half of household expenditure subject to this rate.

1.3 In our March 2019 *EFO* we described our VAT forecast in paragraph 4.32. In our July 2019 *FRR* we presented a fiscal 'stress test' that quantified the impact on the public finances of an IMF no-deal, no-transition Brexit scenario relative to our March forecast baseline. The stress test was a scenario, rather than a forecast. In it we assumed that the VAT standard-rated share would be lower than in our March forecast, largely due to our assumption that consumer spending on durable goods, which are usually subject to the standard rate of VAT, is hit harder than the rest of consumer spending during the downturn but then recovers more quickly in the later years of the stress test period.

Table 1.1: Standard-rated share

	Standard-rated share (per cent)					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
March 2019 EFO	49.6	49.7	49.5	49.3	49.0	48.8
July 2019 FRR		49.7	49.0	48.5	48.3	48.3
Difference (percentage points)		0.0	-0.5	-0.7	-0.7	-0.5

1.4 Overall VAT receipts in the no-deal stress test scenario are around £6 billion a year lower on average from 2020-21 onwards relative to our March forecast. This reflects weaker nominal tax base growth, a hit to the share of consumer spending subject to the standard rate (as set out in the table above) and a rise in the VAT gap. This was described in paragraph 10.28 of the *FRR* document.