

What will be the effect on socio-economic mobility of the UK government's plan to impose value added tax on school fees?

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Abstract. This paper focuses on the effect on socio-economic mobility of the UK government's plan to impose value added tax on school fees, offering a comprehensive review of academic literature and the latest authoritative news. This policy has both positive and negative impacts on socio-economic mobility. Intended outcomes can be achieved when expected tax revenue is reinvested in state education, reducing the gap in education quality and career outcomes between state and private schools, while certain groups may not benefit from the policy and may even see their mobility reduced. There is also uncertainty about the overall impact of the VAT on the UK government budget and the education attainment of the UK society.

Keywords: mobility, value added tax, state school, private school

1. Introduction

In the UK education system, despite the existence of free state schools, fee-paying private schools have attracted some households due to their high-quality resources [1]. Most private schools hold charitable status and are therefore exempt from value-added tax (VAT) before 1 Jan 2025 [2]. Students from private schools have an advantage when applying for universities - while only 6.4% of all children in the UK can attend private schools [3], but the proportion of British newcomers who graduated from private schools is 32.4% of all in Oxford [4]. The Labour Party considered this situation as a great hindrance to socio-economic mobility, which means the movement of individuals, families, households or other categories of people within or between social strata in a society [5,6]. Hence, the UK government decided to end the VAT exemption on private school fees in order to raise revenue to improve the quality of state education, leveling the playing field. This essay will assess both the intended and unintended consequences of this action.

2. Results

2.1. Intended consequences

The intended goals of the UK government seem indeed reasonable and achievable. By imposing a VAT on school fees, the government can generate more tax revenue, which can be reinvested in state education. A UK treasury spokesman said that the VAT is projected to raise £1.8 billion annually by 2029-2030 to enhance state school standards, promoting the academic success of 94% of British children who are in state schools [7].

Tax revenue from the VAT can be spent on improving infrastructure in state schools. For instance, equipping schools with interactive science laboratories, such as VR simulations, can make students in state schools more interested and confident in studying STEM courses [8]. Thus, an increasing number of state school students can receive higher-quality STEM education, making it more likely for them to take STEM majors in universities, which helps them secure jobs because there is an increasing demand for STEM skills, but the supply is insufficient [9]. STEM majors tend to have higher incomes than other majors [10], which means students from low-income families have the potential to break the poverty cycle if they major in STEM courses. In this case, students from state schools are likely to achieve higher upward mobility.

Additionally, the government can allocate funds to retrain teachers in state schools. This type of policy has a track record of success. For instance, the National Institute of Education (NIE) in Singapore subsidizes master's programs for teachers [11], which can improve their ability of class management, assessment skills and interaction with students, especially with systematic training [12]. Highly trained teachers and sustained investment in professional learning contribute to Singapore's outstanding

academic performance [13]. Therefore, retraining teachers can improve the academic performance of state school students, creating more opportunities for them to gain admission to higher education.

High-quality tertiary education is important. The Social Cognitive Theory points out that most human behaviour is learned through observations, which means that environmentally-driven learning is more efficient than trying to make progress on your own [14]. Thus, when students from low-income families enter higher education, they can improve their skills and cognitive abilities more quickly through imitation and interaction with peers in these colleges. Hence, they can become more qualified for highly paid jobs and may experience higher upward mobility.

Considering Rawlsian Equality of Opportunity, VAT on private schools is also beneficial to socio-economic mobility. Rawlsian Equality of Opportunity claims that equal opportunity for success should be given to those who have the same talents, abilities and willingness to use these talents [15], which means the impact of the social class of individuals' parents should be minimized on life chances. Before the VAT, the educational advantages of private schools were enjoyed by the already privileged. When VAT is imposed on private schools, the proportion of students attending private schools may be lower, while the government will use the tax revenue to reinvest in state education, improving the quality of state education received by the majority. In this case, students from the lowest social class have more chances to achieve upward mobility. This policy can make success more dependent on efforts and talents, not only on attending private schools which the majority cannot afford.

In addition, it can be argued that necessities such as food and clothes should be taxed less, in general, to avoid regressive effects on the low-income population since tax on necessities will take up a larger proportion of the income of the poor. However, private education is usually enjoyed by the richer part of society, so it is progressive since the tax accounts for a larger proportion of the income of the rich. Thus, VAT on private education is more ethical.

What's more, due to increased operating costs, private schools may reduce the number of staff to reduce wage costs. It has already been reported that some support staff and teachers at private schools are required to extend their working hours without additional compensation [7], causing the departure of some quality teachers from private schools to state schools. If these teachers enter the state education system, state school students are likely to receive better education and experience more upward mobility.

2.2. Unintended consequences

However, the policy could also bring unintended consequences. Due to the VAT imposed on private school fees, the private schools can become more expensive, which may lead to a higher family income threshold for choosing private education. Some middle-income families who used to make financial sacrifices to help their children receive private education, hoping that their children can obtain a higher social status in the future, may struggle with the increased school fees now. According to the latest research, as a result of the VAT, the proportion of private schools with tuition fees less than £20,000 per year has fallen from 57% in the 2022-2023 academic year to 25% currently, causing middle-income families to have significantly fewer options [16]. The higher fees may force them to transfer their children to state education, reducing the possibility of entering the top universities and elite networks. According to recent research, the majority of English councils have stated that the implementation of VAT on private school fees has not resulted in a substantial impact on applications for state schools [17]. This phenomenon reveals that private education may have an inelastic demand, at least in the short run. One possible reason is that families enrolled in private schools may be more resilient to tuition increases than expected, or they may not have had enough time to adjust to the new situation. Nevertheless, in the long run, if a larger number of private students transfer to state schools, socio-economic mobility can be reduced. To see this, it's been calculated that 39% of the British elites in areas such as political circles, the judicial sector, and the media industry are graduates from private schools [18], while as high as 65% of British senior judges graduated from private schools [18]. The reason is that the private school alumni network plays a crucial role in the recruitment process through alumni referrals [18]. Therefore, by losing access to this elite network, children who lose access to private education due to the fee hikes may see their future social mobility reduced.

Possibly contrary to the initial design, the transfer of students to state schools may place more pressure on resources in state schools. Currently, state schools are already under pressure. In 2023, over 10% of Year 1 and Year 2 classes in England exceeded the recommended size of 30 pupils [19]. With an increasing number of students, challenges such as increased class sizes and a teacher shortage will occur. Hence, the quality of classes may decrease, and students may not receive as much attention as they did before. Besides, demand for housing around good state schools could increase since parents still want their children to receive relatively high-quality education. The rising school district housing prices can exclude low-income families from quality education. This will impede the upward mobility of these students, resulting in an irreversible fixation of social classes and a more difficult life at the lower end of society, betraying the likely original purpose of this tax raise.

When it comes to the government budget, the overall effect of the policy is uncertain. Although it can raise tax revenue, additional spending occurs when private school students transfer to state schools. In the UK, the average per-pupil funding amount for state schools was £7,460 in the 2023-2024 academic year [20], which means the government needs to spend £7,460 more for each extrastudent who is added to state schools. Due to increased class size, the government needs to spend money on

expanding state schools to accommodate these students. If the scale of private-to-public sector transfers is significant, the tax revenue generated by the VAT may not even be able to fully offset this increase in spending.

Moreover, the VAT can be especially harmful to certain disadvantaged groups of students since the tax will increase the operating costs of private schools, potentially reducing the number of places available for scholarship programs. Some bright but less wealthy students who previously relied on such programs to attend private schools may now be denied a place, thus losing access to high-quality education and making it less likely for them to enter top universities and establish a strong social network.

The policy can have a profound impact on the private education sector. Some smaller schools have already closed due to financial pressures, while larger schools have utilized their brand and resource strengths to consolidate their market position through expansion and incorporation [21]. A group of students that may be disadvantaged by this change in the private education landscape is students with special educational needs and disabilities (SEND) [22]. Many small private schools, different from large private schools with comprehensive curricula and facilities, offer specialized education that improves the experience and outcomes for children with SEND [23]. As a result of the increased fees and possible closure of small, specialized private schools, some families with children with SEND may not have viable options for state schools in their area that can adequately address their children's needs, and the increased cost of private education will place a burden on their already capacity [22].

On a societal level, it's not inconceivable that the policy may even be detrimental to the UK's general education system. The human capital theory states that education is a kind of investment in skills and productivity [24]. Private education contributes to the development of human capital despite the fact that only the relatively well-off population can enjoy it. As mentioned above, many graduates from private schools will engage in skilled jobs and make a contribution to the economy. They also need to pay more income tax when they have more income, which can help the government generate more tax revenue to reinvest in state education. The VAT may reduce the number of students who attend private schools, preventing them from high-quality education and reducing the total human capital within the economy.

3. Conclusion

To conclude, the policy of imposing VAT on private school fees has both positive and negative impacts on socio-economic mobility. Intended outcomes can be achieved when expected tax revenue is reinvested in state education, reducing the gap in education quality and career outcomes between state and private schools, while certain groups may not benefit from the policy and may even see their mobility reduced. There is also uncertainty about the overall impact of the VAT on the UK government budget and the education attainment of the UK society. Overall, although the VAT on school fees has the potential to promote socio-economic mobility, only time will tell.

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