# The Impact of Value-added Tax on Private School Tuition Fees on Socio-economic Mobility in the UK

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## Abstract

**This article focuses on the UK government's plan to impose a 20% value-added tax on private school tuition fees in January 2025. It systematically explores its potential impact on socio-economic mobility. The research background indicates that public schools in the UK undertake 94% of the educational functions but are constrained by resource scarcity due to financial limitations, while private schools have long enjoyed value-added tax exemptions, resulting in an imbalance in the allocation of educational resources and exacerbating the lack of social and economic mobility. Research suggests that if this policy can allocate 1.5-2 billion pounds of annual tax revenue towards public schools, it can alleviate unequal distribution of educational resources, provide more equal development opportunities for vulnerable groups, and promote socio-economic mobility by improving infrastructure, expanding teacher and curriculum systems (such as adding AI courses). In response to the controversies that policies may cause, such as intensified education stratification, doubts about the efficiency of fund utilization, and resource squeezing in public schools, research suggests that transparent and fair resource allocation mechanisms can alleviate these issues. In addition, although factors such as differences in inherited wealth and insufficient education awareness among low-income groups constitute additional constraints on social mobility, the core effect of policies still depends on the investment and efficiency of tax funds. Proper implementation will promote social equity, while the opposite may solidify educational inequality.**

## Keywords

**Value-added Tax; redistribution of educational resources; educational inequality.**

## 1. Introduction

Recently, the UK government has proposed a policy of levying value-added tax (VAT) on tuition fees for private schools, which has sparked extensive and intense discussions in the education sector, social policy academia, and the public. According to the proposed plan, from January 1, 2025, tuition fees for private schools in the UK will be included in the scope of value-added tax for the first time, with a proposed tax rate of 20%. As an indirect tax widely used globally, the core feature of value-added tax is to levy taxes on every value-added link in the production and distribution chain of goods or services. Its essence is a form of taxation based on consumer behavior. In the public finance system, value-added tax has always played an important role as a "revenue pillar", and the funds raised are mostly used to support the operation of the country's core public services, including the maintenance of the national education system, the promotion of universal healthcare security, and infrastructure construction, which are closely related to people's livelihoods[1-3].

It is worth noting that over the past 30 years, private schools in the UK have enjoyed special policy benefits such as exemption from value-added tax on tuition fees. The government's proposal to terminate this exemption policy now has clear practical considerations behind it:

the development gap between public and private schools in the UK has become very significant - although public schools undertake the education task of 94% of students nationwide, they have long been limited by government fiscal austerity and high debt pressure (the UK government debt to GDP ratio has reached 98.5% in 2023), facing resource difficulties such as outdated facilities and shortage of teachers; Private schools, relying on high tuition fees paid by families, have formed significant advantages in teaching resources, extracurricular programs, and other aspects. This imbalanced distribution pattern of educational resources has gradually become a focus of social attention[4-6].

From the perspective of policy objectives, the government's promotion of this tax reform is ostensibly aimed at expanding the sources of fiscal revenue and injecting more funds into the entire education sector; Supporters further point out that if the newly added tax revenue can be directed towards public schools, it can effectively improve the quality of public education, cover a wider range of student groups, and create conditions for enhancing social and economic mobility. But opposition voices are equally prominent: critics worry that a 20% tax rate will directly increase the burden of education expenses on middle-income families, which may force some families to give up private education choices; At the same time, they also question whether public schools can absorb the newly added resources and whether tax policies can truly be effective - after all, the long-standing resource constraints in public schools cannot be quickly solved simply by injecting funds[7-9].

Based on the above controversies and practical background, the core viewpoint of this article is clear: although imposing a 20% value-added tax on private school tuition fees will put pressure on middle-income families in the short term, as long as the tax revenue is accurately invested in public schools with funding shortages, this policy is still expected to have a significant positive impact on the social and economic mobility of the UK.

## 2. Skewed Educational Resource Distribution

Currently, the difference in tuition fees between private and public schools in the UK directly reflects the significant differentiation in resource acquisition and development levels between the two types of educational institutions. From the perspective of student coverage, public schools bear the core responsibility of the UK education system, accommodating 94% of eligible students nationwide. However, their operating funds are highly dependent on government public finance appropriations, and the singularity of funding sources makes their development highly susceptible to government financial constraints.

In recent years, the UK government has faced severe fiscal pressure, with continuous implementation of fiscal austerity policies and tight public fiscal reserves. At the same time, the scale of government debt remains high - according to statistics, the proportion of UK government debt to gross domestic product (GDP) has risen to 98.5% in 2023, which is not only at a high level in modern British history, but also significantly limits the government's ability to invest funds in public services. In the field of education, the shortage of financial funds directly leads to the dilemma of "resource scarcity" in public schools: in terms of teaching facilities, many public schools have outdated laboratory equipment, slow updating of library collections, and insufficient maintenance of sports venues, which are difficult to meet the needs of modern teaching; At the level of teaching staff, public schools not only face difficulties in recruiting qualified teachers, but existing teachers often suffer from occupational burnout due to factors such as low salary and heavy teaching tasks. Some schools even have a long-term shortage of subject teachers, which can only be filled by temporary substitute teachers, seriously affecting the stability of teaching quality.

In sharp contrast, the operating model of private schools. The core source of funding for private schools is the high tuition fees paid by families. The independence of this funding channel allows them to independently invest resources to improve their educational conditions, whether it is introducing advanced teaching equipment, offering rich extracurricular courses, or providing teachers with more competitive salaries to attract high-quality educational talents. Private schools have stronger flexibility and execution power. The funding structure of "public relying on finance and private relying on tuition fees" has led to a widening gap in education investment between the two types of schools, and the unequal distribution of educational resources has become increasingly prominent.

From a tax policy perspective, private school tuition fees in the UK have been exempt from value-added tax (VAT) for the past 30 years. The original intention of formulating this policy stems from the consensus in society that "education is a fundamental right" - it is widely believed that education should not increase the burden on families due to high taxes and fees, nor should it become a "privileged resource" for minority groups. However, as the development gap between public and private schools continues to widen, this exemption policy is gradually being questioned as exacerbating the imbalance in the allocation of educational resources. As pointed out in the 2022 report by the Institute for Fiscal Studies in the UK, the unequal distribution of educational resources between the public and private systems has directly led to significant differences in teaching quality and student development opportunities between the two types of schools, which in turn has raised concerns about social and economic mobility in the UK. When high-quality educational resources are overly concentrated in private schools, low-income children find it difficult to achieve social stratification through education, and the risk of social stratification continues to rise.

In this context, the government has proposed a policy of levying value-added tax on tuition fees for private schools, with one of its core objectives being to supplement public education funds through tax regulation. According to estimates, the implementation of this tax policy can generate an additional 1.5 billion to 2 billion pounds of tax revenue for the UK government annually. If these funds can be directed towards public schools, it is expected to alleviate the shortage of resources in public schools and create basic conditions for narrowing the gap between public and private education and improving social and economic mobility.

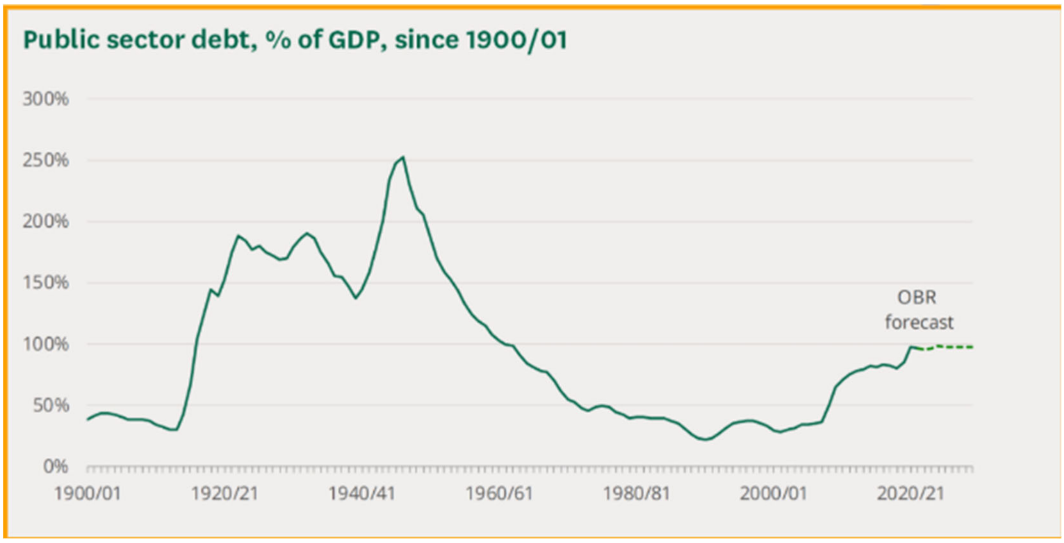


**Figure 1.** Public sector debt,% of GDP

## 3. Low Socio-economic Mobility in the UK

In the UK, the issue of socio-economic mobility has received increasing attention from policymakers, academia, and the public in recent years, especially as multiple studies have revealed the stagnation of upward mobility channels in the country, highlighting the urgency of this issue. The State of the Nation 2022 report released by the Social Mobility Commission in the UK provides compelling data support: only a quarter of children from low-income families can achieve income transition and enter higher income groups around the age of 35; In sharp contrast, up to 62% of children from affluent families can smoothly achieve upward mobility (Social Mobility Commission, 2022). The huge gap between these two sets of data intuitively reflects the uneven mobility between social classes in the UK, and the distribution difference of educational resources between public and private school systems is one of the core factors exacerbating this imbalance - the concentration of high-quality educational resources in private schools, allowing children from affluent families to obtain more development opportunities through better education, while children from low-income families are at a competitive disadvantage due to insufficient public school resources. The gap in development starting points between the two groups has already widened from the education stage.

The relevant report from the Institute for Fiscal Studies in the UK further confirms the negative impact of imbalanced educational resources on vulnerable groups. The report states that children from socially disadvantaged backgrounds, such as those from low-income families and ethnic minorities, have a 20% lower probability of achieving good educational outcomes compared to their peers from affluent families (Tahir, 2022). The 'good educational outcomes' here not only include exam scores and opportunities for further education, but also encompass core competencies such as critical thinking and practical abilities that affect long-term development. The existence of this gap fundamentally limits the possibility for disadvantaged groups to change their own destiny through education.

For vulnerable groups, accessing high-quality education still faces multiple structural barriers. Firstly, the accessibility of extracurricular tutoring and distinctive extracurricular activities is severely lacking. Whether it is subject tutoring, language training, or extracurricular courses in arts and sports, their high costs often exceed the affordability of low-income families, and these resources are precisely important supplements for enhancing learning abilities, expanding horizons, and cultivating comprehensive qualities (Well Rooted Education, n.d.). Wealthy families can build an "educational advantage moat" for their children by paying for such resources, while children from low-income families are excluded due to economic constraints, further widening the gap in educational outcomes.

Secondly, the location of family residence significantly constrains the choice of education quality. In the UK, the quality of education in schools is highly correlated with the economic level of the communities in which they are located - most public schools in low-income communities have long faced the problem of insufficient funding, not only outdated teaching facilities and a single curriculum, but also the dilemma of qualified teacher turnover; Public schools in affluent communities or nearby private schools, with sufficient financial support and high-quality faculty reserves, have become the preferred choice for middle and high-income families. The current situation of "school districts being linked to income" has resulted in children from low-income families being confined to resource-scarce educational environments from the enrollment stage, forming a rigid situation where "residential location determines the starting point of education".

In addition, the lack of an education support system further exacerbates the educational disadvantage of vulnerable groups. On the one hand, parents from low-income families often find it difficult to fully participate in their children's education process (such as tutoring homework, participating in school activities, etc.) due to factors such as being busy with livelihood and limited educational level, resulting in a lack of necessary guidance for their children in the family education stage; On the other hand, some low-income communities have a weak learning atmosphere, lack a positive educational and cultural environment, and even have the erroneous concept of "education is useless". These factors collectively weaken the importance and learning motivation of children from disadvantaged groups towards education.

The above-mentioned multiple obstacles overlap, causing children from disadvantaged groups to fall into a vicious cycle of "insufficient educational resources → poor learning outcomes → weak employment competitiveness → low income levels → insufficient educational resources for the next generation". For example, students from impoverished backgrounds often attend public schools with a shortage of teachers and outdated facilities. The quality of classroom teaching is difficult to guarantee, and there is a lack of tutoring and expansion resources after class, ultimately leading to lower academic performance than their peers; After entering the job market, limited education and skills make it difficult for them to obtain high paying and stable jobs, and they can only engage in low skilled and low-income occupations, which in turn cannot provide good education investment for the next generation. The disadvantage of social and economic status is transmitted from generation to generation, becoming the core crux of the current social and economic mobility dilemma faced by most families in the UK.


**Figure 2.** Poverty and lack of education are shown in a vicious cycle

In fact, the importance of education as a key carrier for breaking class stratification and promoting socio-economic mobility has been confirmed by numerous studies. A comprehensive and high-quality education system can provide individuals with knowledge, skills, and professional qualities that meet the needs of social development, enabling them to have stronger competitiveness in the labor market and thus obtain better employment opportunities and development prospects. As Tamborini et al. (2015) pointed out in their study, higher education levels are significantly positively correlated with lifelong income - individuals who have received higher education or high-quality basic education not only have higher initial salary levels, but also have broader career promotion opportunities, which provides a practical and feasible path for them to escape poverty and achieve social mobility. From this, it can be seen that solving the problem of imbalanced educational resources and creating equal educational opportunities for disadvantaged children are the core breakthroughs in improving the social and economic mobility of the UK. Therefore, levying value-added tax on private school tuition fees to supplement public school funds and fill the gap in educational resources is an important policy exploration direction proposed for this breakthrough.

## 4. How VAT on School Fees Improves Socio-economic Mobility

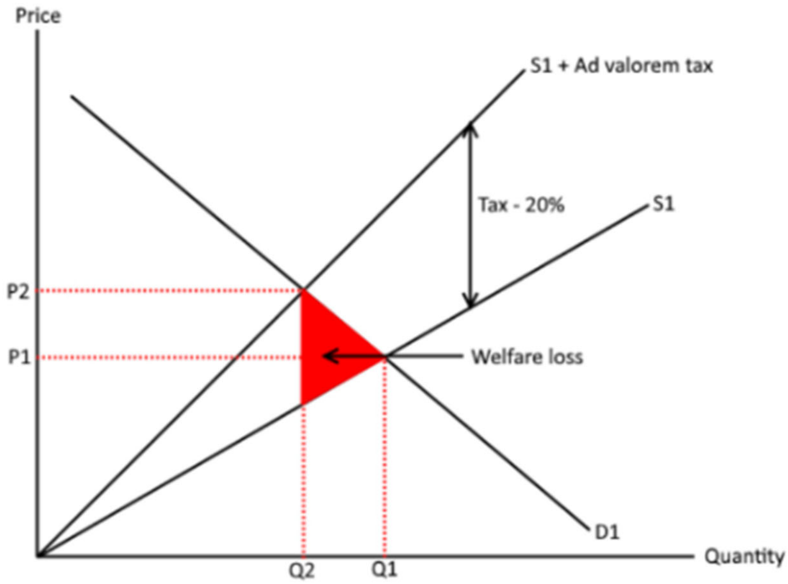


**Figure 3.** VAT graph

From Figure 3, by imposing a 20% VAT on school fees, the cost of private education will increase, leading to a leftward shift of supply as a result. Based on professional estimates, the actual increase in school fees will be less than 20% as private schools can apply for several tax exemptions. Admittedly, approximately 35,000 students are affected, who might be forced out of their schools. However, this only accounts for 0.4% of all UK pupils, which means that this negative influence is controllable.

Once tax revenue is collected, these tax revenues mainly come from middle and high-bourgeois families. Due to the existence of public schools, private education is not a necessity in life, which means that the audience of private education should be aimed at middle- and bourgeois families, and for those who have the ability to achieve a higher quality of education for their offspring. By doing so, VAT will become a transfer payment, which promotes the redistribution of income.

When it comes to the practical use of tax funding, it can help state schools with insufficient resources in terms of building infrastructure， recruiting teachers, and opening more courses, such as an AI curriculum. Based on statistics, state schools often lack educational resources compared to private schools, especially those located in poor areas that lack educational resources. Therefore, these funds will be sent to the schools that need them, rather than being distributed evenly and misused. When allocated transparently and equitably, such funding can play a pivotal role in breaking cycles of educational disadvantage and enabling upward mobility.

## 5. Opposing Views

### 5.1. Constraints on the Choice of Middle-income Families

The Value Added Tax (VAT) on school fees is no doubt going to add up to the total expenses of the families who use the privately offered education. At a proposed rate of 15%, the tuition fees will increase considerably and will impose a high financial burden upon the families who are already under pressure due to high educational costs. As an example, when a private school costs parents £10,000 yearly, with the introduction of this tax, parents may be paying up to 11,500.

Families with middle income may face the greatest pressure because they usually have to work on a tight budget to pay tuition fees to send their children to a private school, as they feel that this will improve their education and future life. These extra expenses can compel such families to rethink their educational decisions, and they may need to give priority to the basic needs instead of educational goals. In such a way, the VAT might transform private schooling into a luxury that most families will not be able to afford.

## 5.2. Aristocracy of Private Schools

Taxing school fees may exacerbate educational inequality. Families from lower socio-economic backgrounds might struggle to afford increased fees, potentially leading to a two-tiered education system where only affluent families can afford quality education (Hanushek & Rivkin, 2004). Not only can it affect family plans and bring pressure, which was unprecedented in the planning process of many families, but it has also further led to the transformation of private schools in Britain into a luxury and something that British aristocrats use to signal status (Sullivan, 2014). In other words, private schools have become a luxury for ordinary people, and this has led to the fact that there is still a social class in the UK. This will lead to different rights for native British citizens, and it means that not all citizens have genuine access to higher education (Keddie, 2019). Nevertheless, if VAT revenue meaningfully enhances state school quality, the reliance on private education for social mobility may gradually decline.

## 5.3. Suspicion on the Effective Use of Funds

Whether the funding from the VAT can be distributed properly remains unknown. First, public schools lack educational resources such as facilities and abundant courses; the funding cannot satisfy each public school's needs. Moreover, considering the bureaucratic issues attached to the operation of the public sector, the efficiency of the resource allocation might take a long time. Many underdeveloped regions should receive more transfer payments; if not, the subsidy scheme can make little change to the deep-rooted disparity in education quality.

## 5.4. Squeeze the Scarce Resource of State Schools

In order to take over the students being forced out of private schools, state schools will encounter huge pressure. The insufficient resources can be squeezed, which means that the existing students at state schools must share their limited resources and other infrastructures with new classmates, which makes the schools more patchy (Barrington, 2022). Plus, middle-class families tend to choose those prestigious state schools as a substitute option for their children. Therefore, it can lead to those state schools that have a higher quality of education being more costly and limit the purchasing power of low-income families for other educational services.

## 5.5. Other Factors Influencing Socio-economic Mobility

Apart from educational disparities, there are some other long-existing factors that may influence socio-economic mobility. One significant factor is inherited wealth. Based on research, the main reason for the stratified social status might be due to the uneven distribution of wealth, such as real estate or shares. In the UK, there is a long-standing historical inheritance, such as manors. Piketty argues that wealth is often transferred through inheritance rather than personal effort, so an individual's economic status frequently mirrors family background (Piketty, 2014).

Another important factor is low awareness of the importance of education among the low-income population. In low-income neighborhoods, it is frequently a shockingly low level of understanding of the importance of education in the long term. Families in such places are mostly preoccupied with their short-term needs of survival. Consequently, the concept of investing time and resources in education that may not bring a direct financial reward is sidelined. Parents can make their kids quit school early and start working to earn extra money for the family budget without realizing that with a good education, they can have access to higher-wage jobs and a more secure future. Moreover, the absence of successful people who have been successful and have used their education to rise up in their social circles also enhances the myth that education is not a key to upward mobility. This lack of knowledge of the importance of education among the low-income groups is also a source of poverty, as generation after generations go on struggling without the knowledge and skills that education can offer.

## 6. Summary

In the short term, the policy of levying value-added tax on tuition fees for private schools will directly increase the economic burden on middle-income families. These types of families usually need to prioritize private education expenditures for their children within their limited budget, in the hope of laying the foundation for their future development through high-quality education. However, the additional tax costs may force them to reduce the scale of education investment, such as reducing additional education expenditures, such as extracurricular tutoring and interest courses, and even re-evaluating the feasibility of private education choices. This will, to some extent, weaken their ability to invest in education and may have a temporary impact on social and economic mobility in the short term.

From a long-term perspective, if the fiscal revenue generated by this tax can be directed towards the field of public education, it will provide financial support for optimizing public school resources: it can be used to improve teaching facilities, expand high-quality teachers, and enrich the curriculum system (such as adding AI, STEAM and other courses that meet the needs of the times), thereby creating more equal learning opportunities for low-income children, gradually narrowing the gap in education access between different income groups, and creating conditions for alleviating wealth inequality and promoting social and economic mobility.

However, there is significant uncertainty in the implementation effect of this policy, and the core risk lies in the compatibility between the public education reform process and tax funding investment. If the reform of public education fails to advance synchronously, such as the bureaucratic system leading to low efficiency in fund allocation, inaccurate coverage of weak schools and disadvantaged groups in resource investment, or the improvement of teaching quality in public schools lagging behind social expectations, then private schools may further transform into elite education due to the screening effect of "high tuition fees+high taxes", becoming the exclusive educational choice for a few high-income groups; If higher education resources continue to tilt towards private education backgrounds, it will exacerbate the phenomenon of "educational privilege" and ultimately lead to a deeper degree of social stratification.

In summary, the ultimate impact of the value-added tax policy on private school tuition fees depends on the government's allocation logic and the efficiency of tax funds. With transparent and fair fund management mechanisms and supporting public education reforms, policies can become an important lever to promote balanced allocation of educational resources and social equity. On the contrary, if the use of funds lacks precision and effectiveness, it may exacerbate educational inequality and have a negative impact on socio-economic mobility.

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