

The Effect of the UK Government's Plan to Impose Value-Added Tax on Private School Fees on Socio-Economic Mobility

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Abstract: This study examines the socio-economic implications of the UK government's policy to impose value-added tax (VAT) on private school fees. Using empirical data and economic analysis, this paper argues that the VAT policy will generate more beneficial outcomes than adverse effects for socio-economic mobility in the United Kingdom. The analysis reveals that while approximately 20,000 to 40,000 private school students may be displaced by the policy, this number represents only 3.4% to 6.7% of total private school enrollment. Critically, displaced students from upper-middle-class families are likely to transfer to well-resourced state schools in affluent neighborhoods rather than overburdening average state schools. The revenue generated from this policy-funding approximately 6,500 new teachers for state schools-will narrow the spending gap between state and private education. This paper demonstrates that the policy's negative externalities are considerably limited, while its positive effects on social mobility will accumulate over time across millions of middle-class and low-income families. Despite vocal opposition from affected interest groups, the empirical evidence supports the conclusion that this taxation policy represents a constructive step toward enhanced educational equity in the UK.

1. Introduction

The intersection of taxation policy and educational access represents a critical dimension of socio-economic discourse in modern societies. In January 2025, the United Kingdom implemented a significant policy change by adding value-added tax (VAT) to private school fees [1], effectively increasing costs for families utilizing private educational institutions. This policy shift has generated substantial public debate [2], with critics arguing that it will disproportionately harm students and potentially destabilize the private education sector. Proponents, however, maintain that the policy serves essential social objectives by redistributing educational resources toward state schools and promoting greater socio-economic integration.

This essay will argue that the imposition of VAT on private school fees in the UK will generate more positive than negative consequences for socio-economic mobility, despite surface-level appearances suggesting otherwise. The apparent contradiction emerges from the asymmetric visibility of policy impacts: those who experience immediate losses are readily identifiable and vocal in their

opposition, whereas beneficiaries-scattered across millions of households-remain less visible and less organized in their advocacy.

This observation is consistent with a broader pattern in political economy: the concentrated costs of regulatory policy tend to generate more organized and vocal opposition than the diffuse benefits it produces. Mancur Olson's seminal analysis of collective action problem in political organizations explains why smaller, more homogeneous groups with concentrated stakes frequently prevail over larger populations with distributed interests, even when the aggregate welfare gains are substantial. In the case of the VAT policy, the families facing immediate cost increases possess both the resources and the incentive to mount organized resistance, as evidenced by the legal challenge brought by the Independent Schools Council [3]. The millions of state school students who stand to benefit from improved funding and smaller class sizes, by contrast, lack the organizational infrastructure to mount an equivalent response.

The policy's potential losses concentrate in a relatively small group of upper-middle-class families who face immediate increases in educational expenditure. In contrast, the policy's benefits-improved state school funding and smaller class sizes-will distribute across millions of middle-class and low-income families over an extended timeframe. This temporal and demographic asymmetry explains why opposition to the policy has been more visible than support.

2. Analysis of Student Displacement

The central concern surrounding the VAT policy centers on the potential displacement of students from private schools. Multiple analyses have projected the number of students who may leave private education due to increased costs. This section evaluates these projections and their implications for socio-economic mobility.

2.1 Price Elasticity of Demand

Although the policy will likely displace some private school students, this essay contends that the number affected will remain relatively modest. The primary reason lies in the price elasticity of demand for private schooling in the UK, which is less than one-inelastic by economic standards. Using fifteen years of data on UK private school fees and enrollment patterns, [4] estimated the elasticity of demand for private schooling at -0.26 for students aged 7, 11, and 13, which represent critical decision points for families considering private education enrollment. This finding indicates that demand for private schooling in the UK is relatively insensitive to price changes.

This conclusion rests on a robust economic framework for understanding consumer behavior in the context of educational services. The demand for private schooling differs fundamentally from demand for ordinary consumer goods in several respects. First, private education functions as a quasi-merit good, with long-term consequences for individual earnings, social networks, and life outcomes that extend far beyond the immediate period of enrollment. Second, families that have invested in private schooling have typically made a long-term strategic commitment, often beginning in primary school and extending through secondary education. Such commitments create substantial switching costs, both financial and psychological, that dampen responsiveness to short-term price changes. Third, the population of families that can afford private school fees has already demonstrated, through its enrollment decisions, a willingness to prioritize educational quality over cost—a preference that is unlikely to reverse in response to a 20% price increase.

Economically, this means that a 20% increase in tuition would result in only a 5.2% decline in private school enrollment. Given that 593,486 students were enrolled in UK private schools during the 2023-2024 academic year [5], approximately 30,861 students would likely be displaced by the policy—a figure comparable to the DfE estimate of "around 35,000 pupils" and the Independent

Schools Council estimate of "around 37,000 pupils."

More recent analysis by [6] estimated the elasticity of demand within a range of -0.2 to -0.5, corresponding to 20,000 to 40,000 displaced students and representing 3.4% to 6.7% of private school enrollment in figure 1. These figures stand considerably below the "about 58,000 children" estimate cited in recent court proceedings and the "up to 90,000 children" projection from former Chancellor Jeremy Hunt. The analysis in [6] demonstrates that achieving 90,000 displaced students would require unit elastic demand-elasticity approaching -1-which historical data does not support.

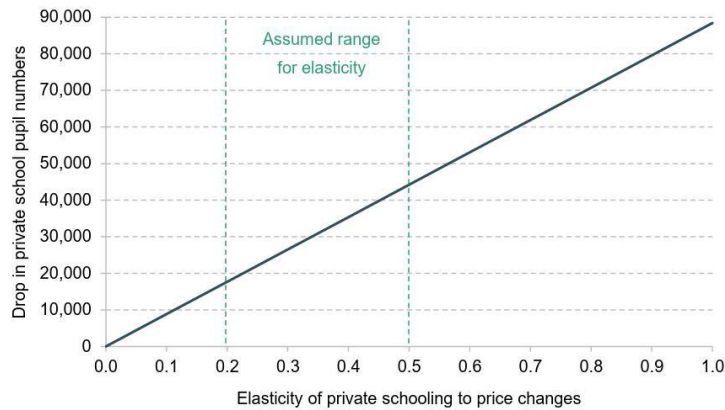
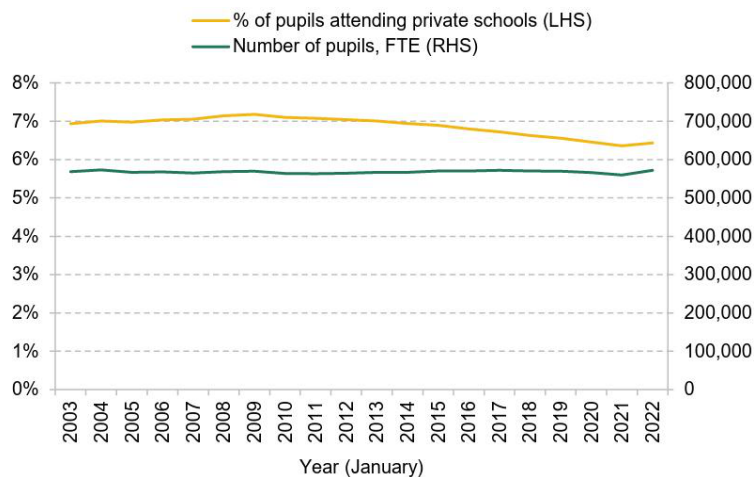


Figure 1. Elasticity of demand for private schooling in the UK. Source: [6].

2.2 Historical Context

The historical stability of private school enrollment provides empirical support for the inelastic demand hypothesis. The percentage of students enrolled in private schools in the UK remained remarkably stable at approximately 6-7% during 2003-2022, despite private school fees increasing by about 20% since 2010-2011 and by 55% since 2003-2004 in figure 2. This remarkable consistency suggests that families with the resources to choose private education remain committed to this choice despite cost increases—a pattern that supports the prediction of limited displacement under the VAT policy.



Note and source: FTE is full-time-equivalent. Department for Education, ["Pupils, schools and their characteristics"](#).

Figure 2. Private school enrollment in the UK as a fraction of total enrollment. Source: [6].

Furthermore, private schools are expected to absorb at least some of the tax burden, meaning that

private school tuition will not necessarily increase by the full 20% rate. This anticipated cost absorption further suggests that the number of displaced students will remain within the modest projections discussed above.

2.3 Empirical Evidence from 2024-2025

What does the most recent data from 2024-2025 reveal about actual student displacement in the policy's first year? Analysis indicates that while there was a small decrease in the fraction of students attending private schools, this decline aligned with predictions based on inelastic demand. Specifically, the enrollment fraction decreased from approximately 0.06527 in 2023-2024 to about 0.06448 in 2024-2025, representing a decrease of 11,009 students in figure 3.

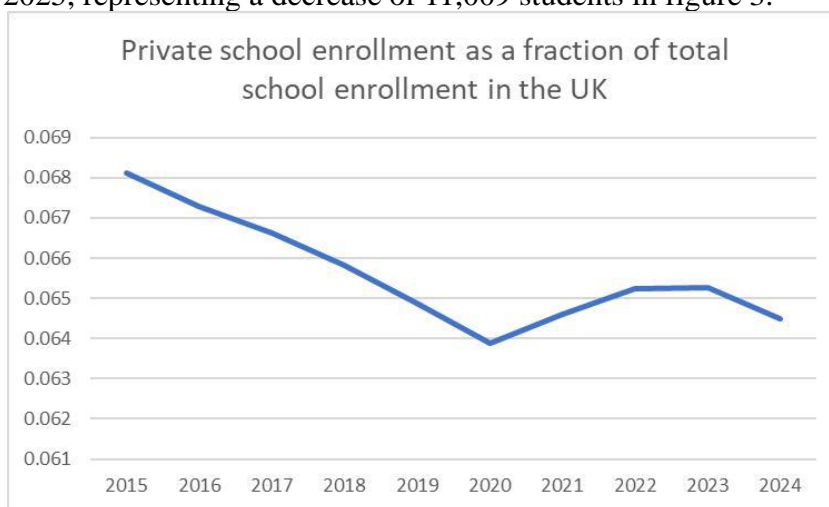


Figure 3. Private school enrollment as a fraction of total enrollment in the UK. Source: Author's figure based on the data from [5]. Note: 2015 on the x axis corresponds to the 2015-2016 school year, 2016 corresponds to the 2016-2017 school year, etc.

This figure does not account for students who would have enrolled in private schools for the first time in the absence of the VAT policy. Based on Department for Education data, the average annual growth in private school student numbers between 2015-2016 and 2023-2024 was 1,307 students per year. Accounting for this "potential growth lost," the total number of displaced students reaches 12,316—a figure consistent with the expectations established above.

3. Private School Closures

Another concern raised by critics of the policy involves the potential for unprecedented private school closures. While some private schools announced closure plans and attributed these decisions to the VAT policy, a contextual analysis reveals a more nuanced picture.

During May 2010 to July 2024, 1,102 private schools closed, translating to approximately 78-79 private school closures per year on average across the 14-year period preceding the VAT policy in figure 4. Additionally, new private schools open annually, meaning that the total net number of private schools must be considered rather than focusing solely on closures. The available evidence suggests that the total net number of private schools continued to rise in 2024-2025, contradicting claims of unprecedented destabilization of the private education sector [7].

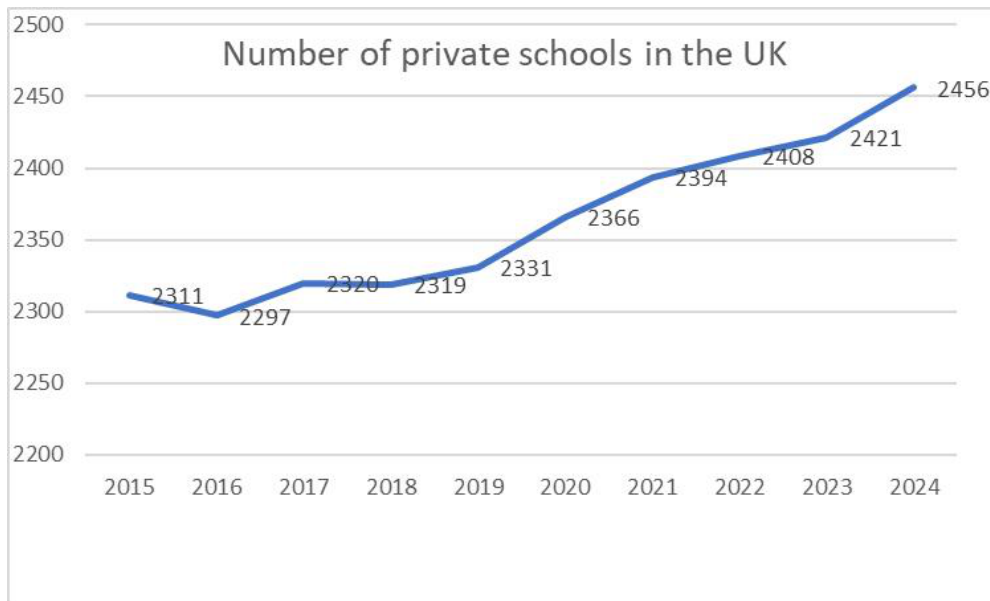


Figure 4. Number of private schools in the UK. Source: Author’s figure based on the data from [5]. Note: 2015 on the x axis corresponds to the 2015-2016 school year, 2016 corresponds to the 2016-2017 school year, etc.

4. Considerations for Special Educational Needs

One potential concern involves the policy's impact on students with special educational needs and disabilities (SEND). According to estimates cited in political discussions, approximately one-fifth of private school students in the UK have special needs. If we assume that SEND students comprise 20% of the upper-middle-class children displaced by the policy, and that 20,000 to 40,000 private school students will be displaced as projected, then the number of displaced SEND students may range from 4,000 to 8,000.

Given that these students have special needs that may not be adequately accommodated in all state schools, it is essential that policymakers develop targeted provisions to ensure such students' needs are met, whether within the private or state school system. This consideration represents an area requiring ongoing policy attention rather than a fundamental objection to the VAT policy itself.

The SEND provisions required for these students vary considerably by individual need. Some students with mild learning difficulties or dyslexia may transition to state schools with minimal disruption, particularly if those schools have established learning support departments. Others with more complex needs—such as students with autism spectrum disorder requiring specialized behavioral support, or those with severe physical disabilities requiring accessibility accommodations—may face genuine challenges in accessing equivalent provision within the state sector. Policymakers should therefore consider a transitional arrangement whereby families of SEND students are provided with detailed information about state school provision in their area, and where necessary, supported through an enhanced funding mechanism that follows the child to their new school, ensuring that the policy's introduction does not result in the withdrawal of services on which vulnerable students depend.

5. Spillover Effects on State Schools

Beyond the direct impact on private school students, concerns have been raised regarding potential negative spillover effects on students in state schools. This section evaluates these concerns and

demonstrates that they lack strong empirical foundations.

5.1 Overcrowding Concerns

A frequently discussed potential negative spillover involves state school overcrowding. However, this concern overlooks a critical point: the sorting of displaced private school students into well-resourced state schools. Upper-middle-class students displaced from private schools are unlikely to attend random or average state schools.

This sorting follows from two important facts. First, although substantial differences exist across UK regions in how students are assigned to schools, most schools (88%) include geography in their admission criteria, meaning that most students attending state schools in the UK were assigned to schools relatively near their homes. Second, upper-middle-class families tend to reside in neighborhoods or towns with well-resourced state schools. Research has demonstrated that state schools in affluent neighborhoods differ systematically from those in low-income areas in the UK.

Research [8] on school admissions criteria across England documented that geographic proximity constitutes a primary admission criterion for the overwhelming majority of state-funded schools. Their analysis of over 3,000 school admission policies found that residential address was among the most significant factors determining school placement, with schools in affluent postcodes serving catchment areas that overlap closely with neighborhoods of relative socioeconomic advantage. This geographic foundation means that the social composition of a school's student body is not random, but systematically related to the characteristics of its surrounding neighborhood—a finding with direct implications for understanding where displaced private school students will ultimately enroll.

[9] documented this disparity clearly: while nearly all secondary schools (93%) in the wealthiest areas received "outstanding" or "good" ratings from Ofsted, only two-thirds of schools (67%) in the poorest areas achieved similar ratings in figure 5. This association between state school quality and neighborhood affluence demonstrates that displaced private school students will predominantly transfer to schools with superior resources and capacity to accommodate them.

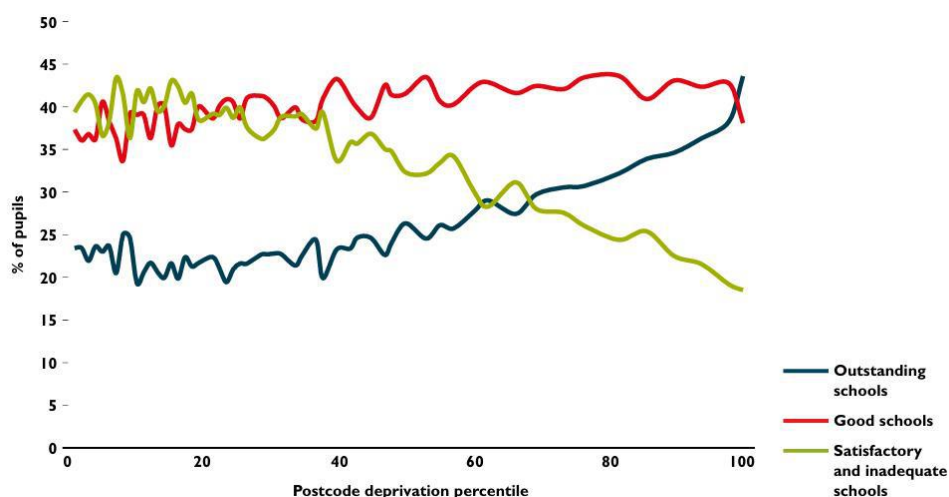


Figure 5. Neighborhood deprivation and quality of state schools. Source: Wellings & Wood (2012).

This geographical sorting of students carries important implications for the distribution of educational resources under the VAT policy. When upper-middle-class families are displaced from private schools, their residential location means their children will predominantly transfer into schools in affluent catchment areas. These schools already benefit from a range of advantages: higher per-student funding from local authorities due to the concentration of council tax revenue in wealthy areas, more active parent-teacher associations, greater capacity for voluntary fundraising, and lower

proportions of students eligible for free school meals. The capacity of these schools to absorb additional students is therefore considerably greater than average, reducing the risk of overcrowding even in the event of a moderate influx of transfer students.

5.2 Bursary and Financial Support

Another potential negative spillover effect involves private schools cutting bursaries for low-income students. However, research by [10] indicates that this potential effect carries very limited practical implications. Their findings reveal that almost half of bursaries from private schools are not means-tested, meaning they do not specifically target low-income students. Additionally, private schools spent, on average, just 6% or less of their gross fee income on means-tested support during 2020-2023, with only 10-11% of students receiving any means-tested support.

These statistics indicate that even if private schools do reduce bursaries, the number of affected low-income students—those receiving full means-tested support—will remain very small. The fear of widespread harm to low-income students through reduced bursaries appears disproportionate to the actual scale of such support.

6. Direct Effects on State School Funding

Having established that the losses produced by the VAT policy remain limited, we can now examine the policy's direct effects on middle-class and low-income students attending state schools. The fundamental rationale behind the policy involves investing the funds raised through VAT on private school fees into state schools, including through the hiring of additional teachers at a critical juncture for socio-economic mobility in the UK.

[6] documented that the gap between state school spending per student and average private school fees more than doubled between 2009-2010 and 2022-2023 in figure 6. While the funding raised through VAT will not eliminate this gap, and critics have questioned whether the "plan for 6,500 new teachers funded by private school VAT might not even fix the shortage," the policy nevertheless represents a constructive step in the right direction. Although the policy will not eliminate the resource disparity between state and private education, it will meaningfully narrow this gap while generating only limited negative side effects.

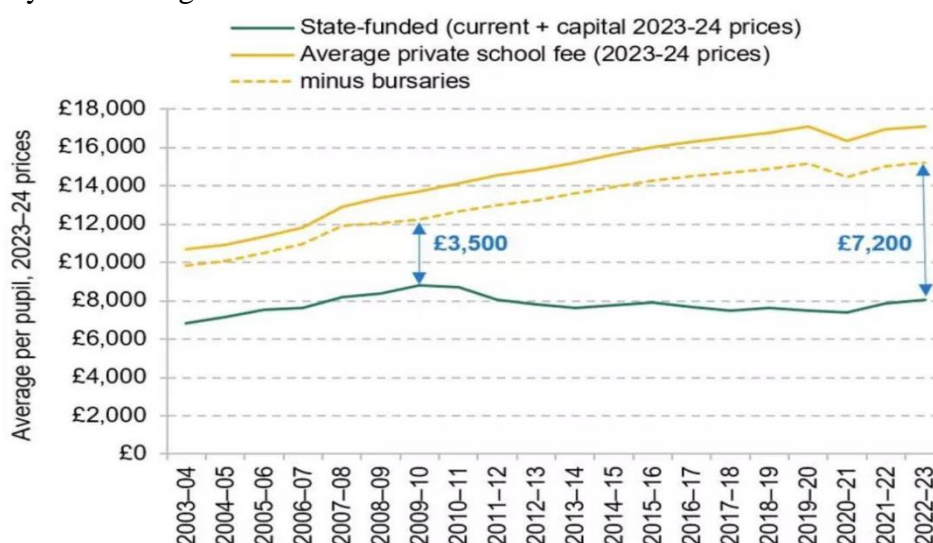


Figure 6. State school spending per student and average private school fees. Source: [6].

The policy also invites broader reflection on the relationship between educational privilege and

social mobility in advanced democracies. The United Kingdom has long exhibited lower rates of intergenerational income mobility compared to other developed nations, with research by Corak and others placing the United Kingdom among the least mobile societies in the Organisation for Economic Co-operation and Development. Educational opportunity is widely recognized as a critical determinant of intergenerational mobility, and the significant resource gap between private and state schooling represents one mechanism through which educational inequality is transmitted across generations. While the VAT policy alone cannot resolve this structural problem—which reflects decades of institutional development and political choice—it represents a meaningful acknowledgment that educational privilege should not be entirely insulated from fiscal responsibility. In this sense, the policy contributes to a broader normative shift in how societies conceptualize the relationship between private educational advantage and collective social obligation.

7. Conclusion

This essay has demonstrated that the UK government's policy to impose value-added tax on private school fees will generate more beneficial than harmful outcomes for socio-economic mobility. The analysis reveals several key conclusions.

First, the number of students displaced from private schools will remain relatively small—approximately 20,000 to 40,000 students, or 3.4% to 6.7% of total private school enrollment. Historical evidence confirms that demand for private schooling in the UK is highly inelastic, and preliminary data from the policy's first year supports this projection.

These elasticity estimates are broadly consistent with findings from comparative studies conducted across other developed economies. Research by JPNeumann and colleagues examining private school demand in Germany, where private school enrollment rates are substantially lower than in the United Kingdom, similarly found price elasticities in the range of -0.2 to -0.4, suggesting that families across different national contexts demonstrate comparable resistance to withdrawing children from private schooling in response to cost increases. The German case is particularly instructive because Germany applies no VAT exemption to private school fees, effectively demonstrating that even sustained differential pricing does not fundamentally undermine private school enrollment in the medium to long term. These cross-national findings provide additional confidence in the validity of the elasticity estimates in [6] for the United Kingdom context.

Second, concerns about negative spillover effects on state schools lack strong empirical support. Displaced private school students will predominantly transfer to well-resourced state schools in affluent neighborhoods, which possess the capacity to accommodate them. Claims of widespread state school overcrowding overlook the geographic sorting of students and families.

Third, fears about reduced financial support for low-income students, while worthy of continued attention, appear exaggerated given the limited scope of means-tested bursaries in private schools. The empirical evidence suggests that the number of affected low-income students will remain minimal.

The policy's resistance, despite this evidence of limited harm and potential benefit, reflects two important factors. First, those who lose from the policy represent a relatively small, well-resourced group capable of organized opposition—evidenced by the legal challenge mounted by the Independent Schools Council and affected families. Second, the losses from the policy are immediate and concentrated, while benefits accumulate gradually across a diverse, large population with limited resources for collective action. This asymmetry mirrors patterns observed in many environmental and banking regulations and helps explain why critical voices have dominated public discourse.

The historical parallels are instructive. Financial regulation following the 2008 global financial crisis faced similar patterns of concentrated costs and diffuse benefits: the banking sector bore

substantial compliance costs and was organized and vocal in its opposition, while the broader public—benefiting from greater financial stability—had no comparable organizational vehicle for expressing support. Environmental regulation similarly produces immediate costs for regulated industries while delivering benefits that materialize over decades and accrue to populations not yet born. In each case, the political economy of reform favors organized interests with concentrated stakes over the general public whose welfare depends on effective regulation. Understanding the VAT policy on private school fees through this lens illuminates both why opposition has been so visible and why it should not be allowed to derail a policy whose aggregate benefits are demonstrably positive.

In conclusion, the VAT on private school fees represents a measured policy intervention that addresses educational inequity while generating limited negative externalities. The revenue raised will fund thousands of new teachers for state schools, narrowing the resource gap between public and private education. Despite vocal opposition, the empirical evidence supports the conclusion that this policy constitutes a positive step toward enhanced socio-economic mobility in the United Kingdom. Policymakers should proceed with implementation while developing targeted provisions for students with special educational needs, thereby maximizing the policy's beneficial effects while minimizing any remaining concerns.

Looking forward, several complementary policy measures could amplify the beneficial effects of the VAT policy on socio-economic mobility. First, the government should consider introducing minimum quality standards for state schools in the most disadvantaged areas, building on the existing Ofsted framework to ensure that all students, regardless of postcode, have access to a baseline quality of education. Second, enhanced transparency requirements could be imposed on private schools regarding the allocation of bursaries and scholarships, ensuring that means-tested financial support is genuinely targeted at students from low-income backgrounds rather than distributed across a broader population of applicants. Third, a longitudinal tracking study should be commissioned to monitor the medium to long-term effects of the VAT policy on both displaced private school students and state school students benefiting from improved resources, providing an empirical foundation for future policy refinement. These measures, while beyond the scope of the current policy, represent natural extensions of the equity objectives that animate the VAT policy itself.

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