

Provisional VAT gap estimates: Official Statistics Release

1. The 'Measuring Tax Gaps 2011' report published by HMRC on 21st September included estimates of the VAT gap from 2002-03 to 2009-10. Since that publication, the Office for National Statistics has released 'Consumer Trends Q2 2011' and 'Blue Book 2011'. These publications include significantly revised historical expenditure data of which the VAT gap estimates are largely constructed. The VAT gap estimates are therefore particularly sensitive to changes in this data source.
2. The revisions to expenditure data have had a significant impact on the VAT gap estimates. The table below sets out the current best estimates of the VAT gap from 2002-03 onwards, including a first estimate of the 2010-11 VAT gap. The table includes estimates of the component of the VAT gap attributable to debt and to missing trade intra-community (MTIC) fraud.

VTTL, VAT receipts and revenue losses

	Net VTTL ² (£bn)	Net VAT receipts ² (£bn)	Revenue loss (£bn)	Revenue loss (£bn)		VAT gap
				of which, MTIC fraud ³ (£bn)	of which, debt (£bn)	
2002-03	75.2	63.7	11.6	15.4%
2003-04	78.2	69.1	9.1	11.6%
2004-05	81.3	72.8	8.5	10.5%
2005-06	84.7	73.0	11.7	3.0 – 4.0	..	13.9%
2006-07	88.3	77.6	10.7	2.0 – 2.5	..	12.1%
2007-08	92.1	82.0	10.1	1.0 – 1.5	0.9	11.0%
2008-09	91.7	79.8	11.9	1.0 – 1.5	2.4	13.0%
2009-10¹	79.9	71.4	8.5	1.0 – 1.5	1.8	10.6%
2010-11¹	94.7	85.5	9.2	0.5 – 1.0	0.9	9.7%

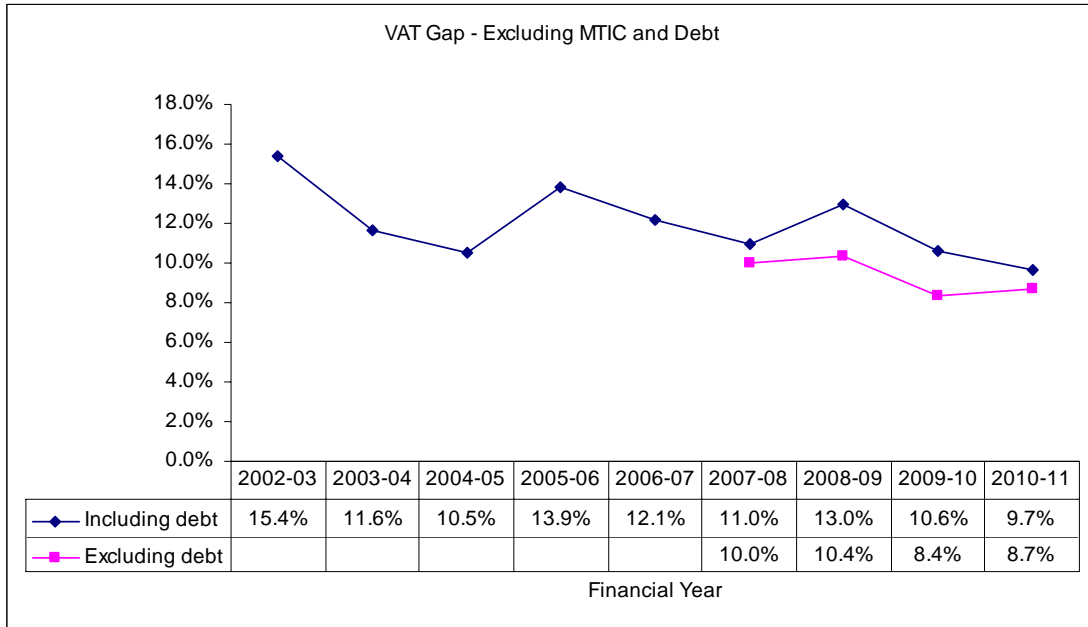
The totals may differ from the sum of the components because of rounding.

¹ A proportion of the VTTL estimate in 2009-10 and the entire VTTL estimate in 2010-11 are based on projected rather than actual expenditure.

² Net VTTL (VAT Theoretical Tax Liability) and net VAT receipts are expressed net of payments and re-payments.

³ Missing trader intra-community fraud. Estimates are rounded to the nearest £0.5 billion

3. The chart below shows that the estimates of VAT gap excluding debt have been broadly flat over the last four years, at between 8-10 per cent of VTTL. The peaks in the VAT gap in 2002-03 and 2005-06 are attributable to an increase in those years in MTIC fraud. The peak in the VAT gap in 2008-09 is attributable to an increase in debt.



4. The estimates of the VAT gap are never exact, and it is usual for the estimates to change as new data are incorporated. ONS plan to make further methodological improvements to their expenditure data which may impact on the VAT gap estimates. Planned updates and methodological improvements to other components of the VAT gap model may also have an impact on these estimates.
5. Updated estimates of the VAT gap will next be published in the 2012 edition of 'Measuring Tax Gaps'. This publication is expected to include an initial estimate of the 2011-12 VAT gap, assuming the Blue Book returns to its usual summer publication timetable.

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Notes

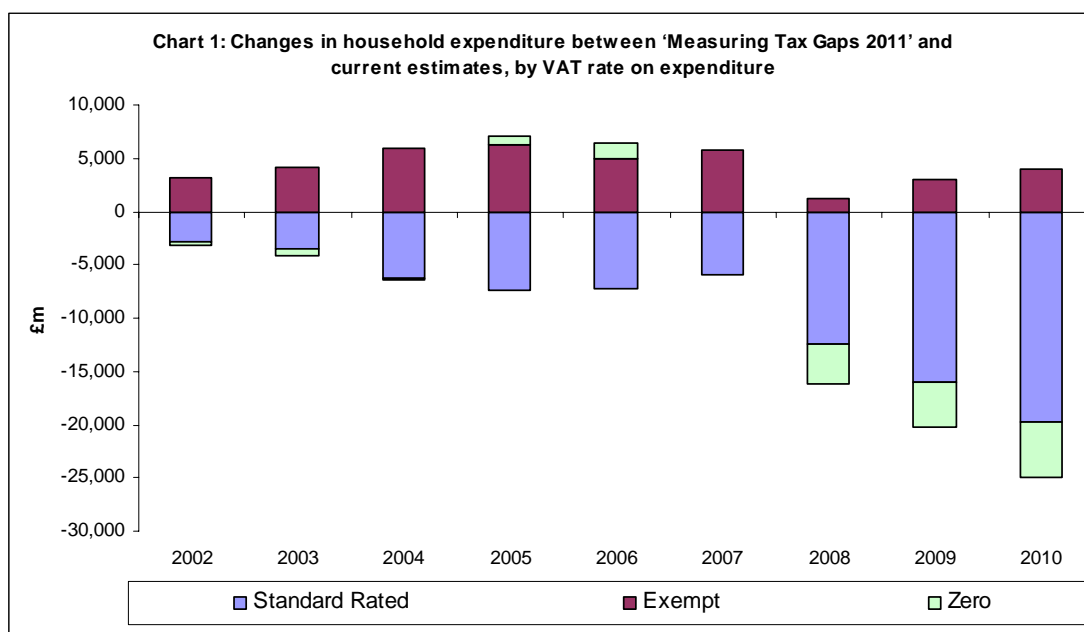
1. The 'VAT gap' is the difference between the theoretical total VAT liability, estimated using National Accounts data, and actual cash receipts. Further information on the methodology used to estimate the VAT gap can be found in 'Measuring Tax Gaps 2011' (<http://www.hmrc.gov.uk/stats/mtg-2011.pdf>).
2. The Office for National Statistics (ONS) made large scale changes to the National Accounts estimates, leading to significant revisions to the 'Consumer Trends Q2 2011' release on 5th October 2011 and to 'Blue Book 2011' data released on 1st November 2011. More information on the reasons for these revisions can be found on the ONS website (<http://www.ons.gov.uk/ons/publications/index.html>).
3. The differences between the VAT gap estimates published in 'Measuring Tax Gaps 2011' and the current estimates are given in Table 1 below.

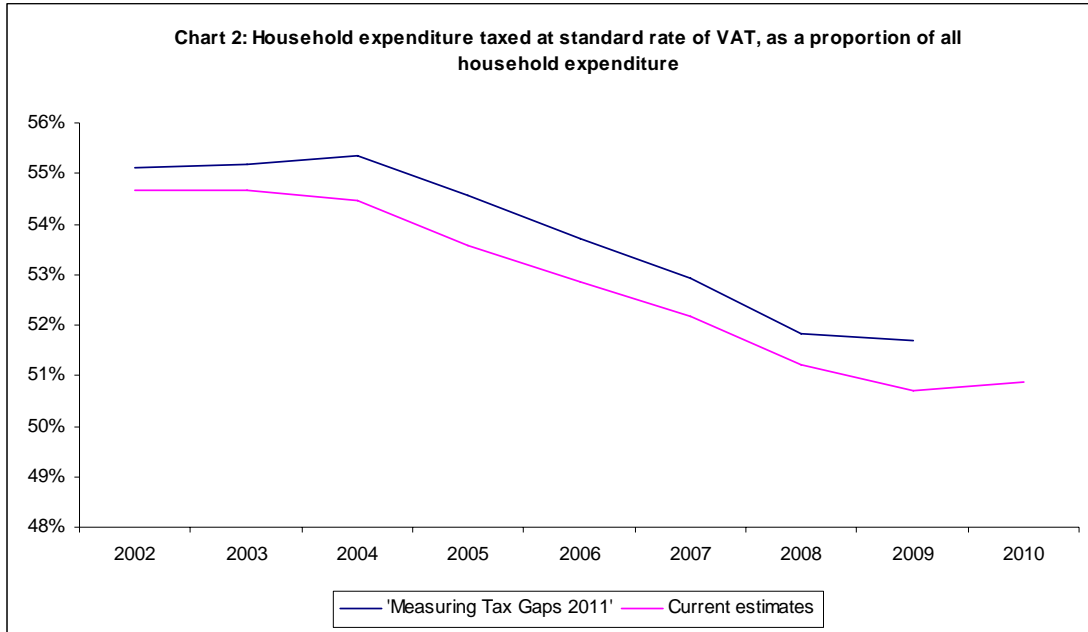
Financial year	'Measuring Tax Gaps 2011' publication		Current estimates		Difference	
	VAT revenue loss (£bn)	VAT gap	VAT revenue loss (£bn)	VAT gap	VAT revenue loss (£bn)	VAT gap (percentage point)
2002-03	11.8	15.6%	11.6	15.4%	-0.3	-0.3
2003-04	9.5	12.0%	9.1	11.6%	-0.4	-0.4
2004-05	9.7	11.7%	8.5	10.5%	-1.1	-1.2
2005-06	13.1	15.2%	11.7	13.9%	-1.4	-1.4
2006-07	12.1	13.5%	10.7	12.1%	-1.4	-1.4
2007-08	11.6	12.4%	10.1	11.0%	-1.5	-1.4
2008-09	14.6	15.5%	11.9	13.0%	-2.7	-2.5
2009-10	11.4	13.8%	8.5	10.6%	-2.9	-3.1

4. Revisions to the household expenditure data series (which contributes around 70 per cent of total expenditure) used in the VAT gap model are shown in Table 2 below.

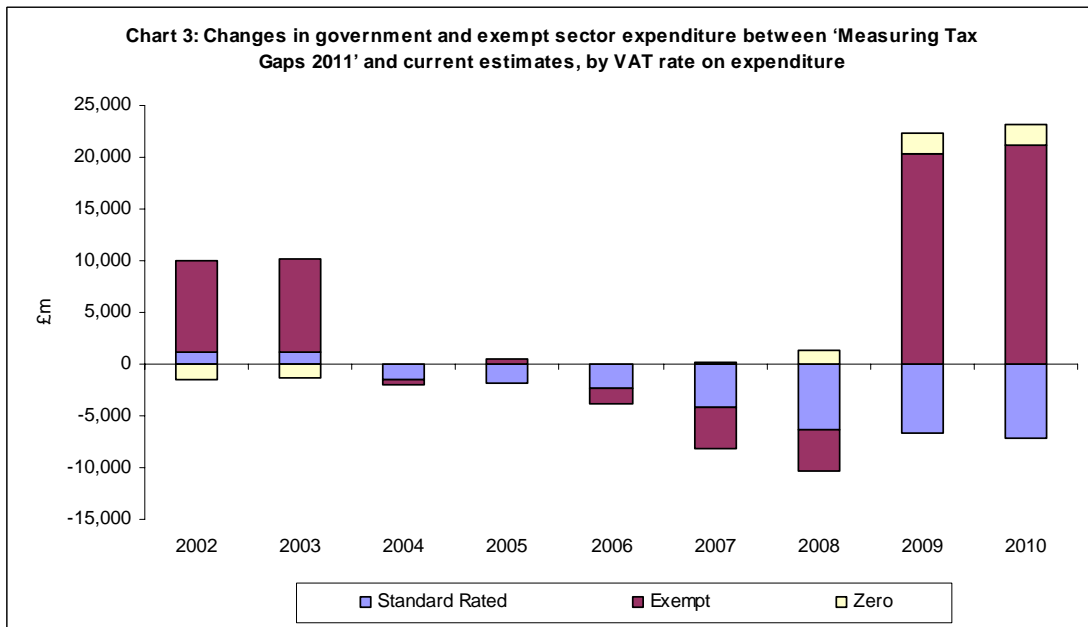
Table 2: Revisions to HHFCE (total domestic expenditure (ABQI), not seasonally adjusted, current prices)				
Year	Current estimate (consistent with Blue Book 2011) (£m)	Previous estimate (consistent with Blue Book 2010) (£m)	Revision to value (£m)	Percentage change in value
1997	511,191	511,577	-386	-0.10%
1998	544,288	544,518	-230	0.00%
1999	577,271	576,993	278	0.00%
2000	610,176	609,617	559	0.10%
2001	638,319	638,253	66	0.00%
2002	670,468	670,401	67	0.00%
2003	702,597	702,447	150	0.00%
2004	737,668	737,927	-259	0.00%
2005	772,189	772,181	8	0.00%
2006	807,775	808,223	-448	-0.10%
2007	850,030	849,486	544	0.10%
2008	864,535	878,707	-14,172	-1.60%
2009	848,731	864,938	-16,207	-1.90%
2010	892,171	910,953	-18,782	-2.10%

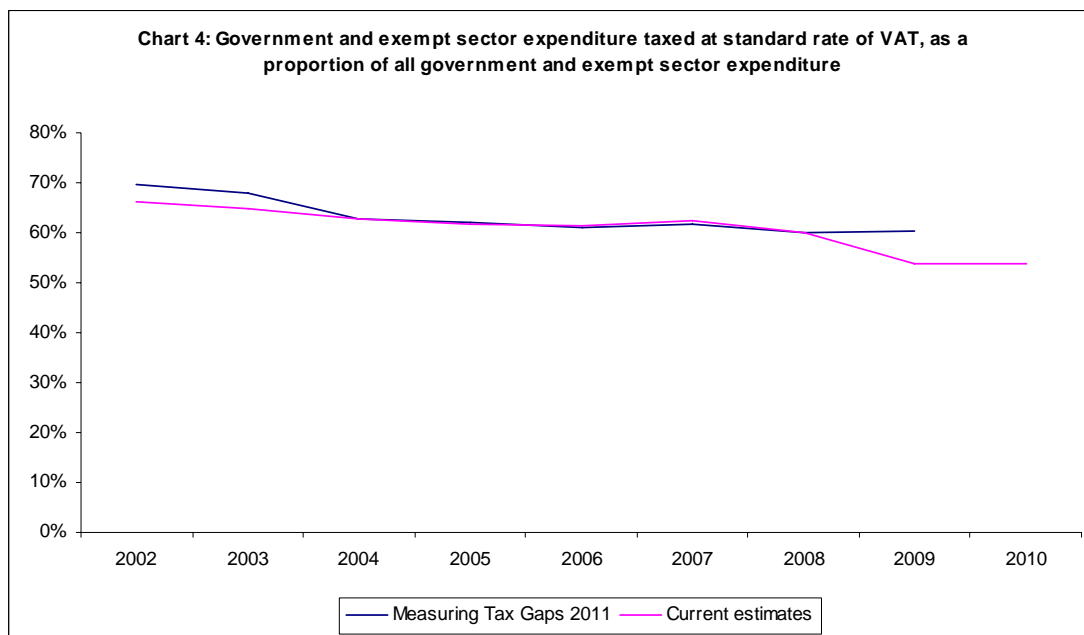
5. Charts 1 and 2 below show how revisions to the household expenditure estimates have affected the distribution of revisions by VAT rate category and the proportion of expenditure taxed at the standard rate of VAT. The charts compare the current distribution to that used in 'Measuring Tax Gaps 2011'.





6. Charts 3 and 4 below show how revisions in government and exempt sector expenditure have affected the distribution of revisions by VAT rate category and the proportion of expenditure taxed at the standard rate of VAT. The charts compare the current distribution to that used in 'Measuring Tax Gaps 2011'. (Exempt sector expenditure is that by businesses making outputs that are exempt from VAT).





7. The impact on the VAT gap estimates caused by revisions to household expenditure and to the government and exempt sector expenditure are shown in Table 3 below.

Table 3: Revisions to VAT gap estimates by type of expenditure

Financial year	Total difference between 'Measuring Tax Gaps 2011' estimates and current estimates		Difference attributable to revisions to ONS household expenditure data		Difference attributable to revisions to ONS government and exempt sector expenditure data	
	VAT revenue loss (£bn)	VAT gap (percentage point difference)	VAT revenue loss (£bn)	VAT gap (percentage point difference)	VAT revenue loss (£bn)	VAT gap (percentage point difference)
2002-03	-0.3	-0.3	-0.4	-0.5	0.2	0.2
2003-04	-0.4	-0.4	-0.5	-0.6	0.2	0.2
2004-05	-1.1	-1.2	-1.0	-1.0	-0.2	-0.2
2005-06	-1.4	-1.4	-1.1	-1.1	-0.3	-0.3
2006-07	-1.4	-1.4	-1.1	-1.1	-0.3	-0.3
2007-08	-1.5	-1.4	-0.9	-0.8	-0.6	-0.6
2008-09	-2.7	-2.5	-1.8	-1.6	-0.9	-0.9
2009-10	-2.9	-3.1	-2.0	-2.2	-0.9	-1.0

8. ONS Blue Book data are a key component of HMRC's VAT gap estimates. The 'Measuring Tax Gaps 2011' release published by HMRC on 21st September detailed expenditure data up to 2009. This year publication of the Blue Book was delayed by several months, from July to November 2011, which meant that publication of the VAT gap estimate for 2010-11 was delayed until now. The Blue Book 2011 data were, for the first time, published using the 2007 Standard Industrial Classification (SIC) rather than the 2003 SIC. This change may have had an impact on our estimates of the VAT gap.

9. ONS is planning a programme of methodological improvements to their expenditure estimates. ONS will also update estimates as part of the usual National Accounts production process. This is expected to particularly affect 2010 estimates, which have not yet been through the National Accounts balancing process.

10. Given the sensitivity of the VAT gap estimates to expenditure data, particularly household expenditure, the VAT gap estimates published here are potentially subject to significant changes as further revisions are published by ONS. In addition, HMRC regularly reviews the VAT gap model methodology and any resulting changes may also lead to revisions to the VAT gap estimates.