Impact of the VAT increase on the CPI

On the 4 January 2011, the standard rate of Value Added Tax (VAT) increased from 17.5 per cent to 20 per cent. ONS estimates that the impact on the January 2011 Consumer Prices Index (CPI) from retailers and service providers passing on the VAT increase (between the December 2010 and January 2011 collection dates) was to increase the 12-month rate by around 0.76 percentage points. This means that if VAT had remained at 17.5 per cent in January 2011, the CPI 12-month rate would have been around 0.76 percentage points lower than the published figure of 4.0 per cent.

The impact of 0.76 percentage points on the January 2011 index compares with an impact of 0.40 percentage points on the January 2010 index when VAT increased from 15 per cent to 17.5 per cent. The most significant differences in impact in January 2011 compared with January 2010 came from:

- transport: where the impact of the increase in VAT on fuel prices and the cost of new cars had more of an upward effect on the CPI in January 2011. A contributing factor to this is due to the weights for these components being higher in January 2011 compared with January 2010, which means that price changes in fuel and new cars have a larger impact on the January 2011 CPI

- alcohol and tobacco: a contributing factor, again, is that the weights for these components are higher in January 2011 compared with January 2010. This means that price changes in alcohol and tobacco have a larger impact on the January 2011 CPI. In addition there was evidence that there was a greater pass-through of the VAT increase in January 2011 on alcohol compared to January 2010

The approach and methods used to measure the impact in January 2011 are consistent with those that were used to estimate the impacts on the CPI of the temporary reduction in the standard rate of VAT in December 2008 and subsequent reversion in January 2010. Further details on this and on the CPI more generally can be found in the article provided below.

**Further Reading**

*Impact of VAT reduction on the consumer price indices*

Further Information
For further information please contact:
Darren Morgan
01633 455666 Email darren.morgan@ons.gsi.gov.uk

or

Philip Gooding
01633 455896 Email philip.gooding@ons.gsi.gov.uk

Alternatively Email cpi@ons.gov.uk

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