

Can we now cut VAT?

One of my reasons for campaigning over the Northern Ireland protocol is I want the UK government to be able to set or amend taxes they impose. One of the Brexit wins for me was going to be removing VAT from items that should not be taxed like female hygiene products, home insulation and other green items. I also wanted to raise the threshold limit before a small business has to comply. There are many cases now of small businesses that stop trading during the year in order to avoid exceeding the £85,000 turnover limit. Literally guests houses have some months when they refuse guests and many small trading businesses discourage orders when they are getting near the limit.

The arguments of the last few weeks have not for me been theoretical or constitutional or over diplomacy. They have been about these basic issues of who sets the taxes and who fixes the law that have a direct impact on the small businesses of my constituency and the rest of our country. In 2019 the UK lost a case in the European Court and was forced to impose VAT on wind and water turbines. A complex services test was imposed before insulation could qualify for zero VAT. In 2022 the UK legislated to correct some of this bad judgement, but could not make changes for Northern Ireland under the Protocol.

I have long been worried that the Treasury's reluctance to raise the VAT threshold relates to their belief that they cannot do so for Northern Ireland. I will table some more questions about what powers the EU will still have under the latest agreement, both over NI and the whole of the UK. It appears the UK has accepted it needs to keep much of the VAT law framework. VAT is a bureaucratic tax, expensive for business to administer. Instead of just being a tax on the final consumer, a simple purchase tax, it is a tax on all business activity. It needs a system of input and output taxation, with businesses trying to reclaim VAT on materials and intermediates, as every time a component, material or finished manufacture changes hands it attracts VAT.