The Sustainable Development of Education Policy: Taking UK Value Added Tax as An Example

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Abstract. In recent years, the application of Value Added Tax (VAT) policy in the education field in the UK has sparked widespread discussion, especially its impact on the financial situation of state schools and private schools. This article focuses on the current framework of the UK VAT policy and its positive impact on the education system, aiming to explore how tax leverage can optimise the allocation of educational resources and promote educational equity. The research finds that the implementation of VAT policy has increased the government's fiscal revenue by about 2.5 billion pounds and provided important financial support for the renewal of teaching equipment, the construction of teaching staff and the improvement of digital literacy in state schools. In addition, through the precise tax redistribution mechanism, the policy helps to narrow the difference in resources between state and private schools and promotes the balanced development of the education system. This paper also puts forward a series of policy optimisation suggestions, including establishing a dynamic monitoring system, strengthening the cooperation between public and private schools, and improving the teacher development mechanism, to further enhance the implementation effect of the policy. The research provides a theoretical and practical reference for improving the 'equity-oriented' education fiscal and taxation policies and provides a useful reference for the application of fiscal and taxation tools in global education governance.

Keywords: Value added tax; educational policy; educational finance; educational equity.

1. Introduction

In recent years, the applicability and social effects of the British Value Added Tax (VAT) policy in the field of education have attracted academic attention, especially around the tax difference between state and private secondary schools. The current British policy stipulates that state schools, as public funding institutions, enjoy VAT exemption, while private schools, as private education service providers, need to pay a standard tax rate of 20% [1]. While maintaining the fairness of public finance, this system also triggers a discussion on the effectiveness of the distribution mechanism of educational resources [2]. The related disputes involved the dimensions of sustainable development of education and social mobility opportunities.

Most of the existing studies focus on the analysis of the macroeconomic effects of VAT policy, but two key issues in the field of education have not been fully explored: first, how the differentiation of tax leverage affects the long-term financial toughness of state and private secondary schools; second, the possible impact of policy implementation on education equity. Through a systematic analysis of the current situation and implementation contradictions of VAT policy in the UK, this study aims to reveal the composite mechanism of tax tools in the allocation of educational resources, which may narrow the resource gap through precise adjustment, or produce unexpected consequences due to the lack of dynamic adaptability in the system design. The research results can be used to optimise the accuracy of educational, fiscal, and tax policies, and provide theoretical support for improving the sustainable development ability of different education subjects.

2. Overview and Impact of VAT Policy

2.1. Policy Interpretation and Development Evolution

The UK's Value Added Tax (VAT) policy was enacted in 1972 and officially implemented in 1973. Its legal framework covers the supply of goods and services and the taxation of imported goods within the United Kingdom. At the beginning of its design, the tax system took into account the convergence with the standards of the European Economic Community and considered it as a consumption tax levied on the sales of goods and services by value-added tax registered enterprises [3,4]. It has developed into a core component of government revenue.

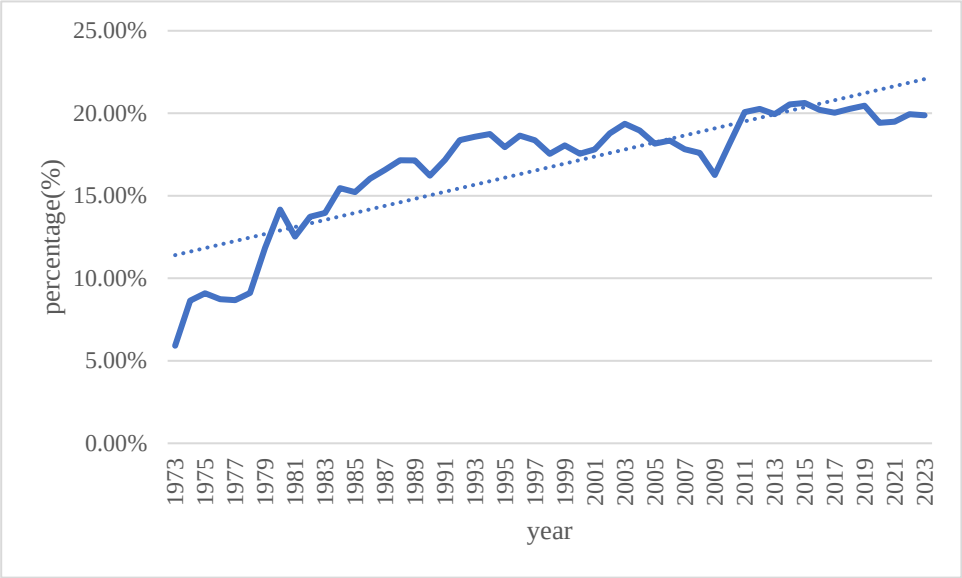

Fig. 1 VAT as a percentage of UK government revenue.

According to the financial statistics in Fig. 1, the proportion of VAT revenue in total government revenue has remained stable at about 20% in the past decade [5]. It reflects the structural position of this tax in the financial system, and this continuous income contribution makes it a key variable that needs to be carefully weighed in policy adjustments.

In terms of the application in the field of education, the current system shows obvious differences: state schools receive financial support through local government or central financial allocations, and continue to apply the value-added tax exemption policy for public interest services, i.e. 0% tax rate, while since January 1st, 2025, the tuition income of private schools will no longer enjoy tax preference, and will use the same 20% standard tax rate as other private education services [1]. This institutional arrangement objectively forms the different operating cost structures of the two types of educational institutions, and its long-term impact is worth continuing observation.

2.2. Positive Impact

2.2.1 Government revenue and education investment

After the implementation of the policy of levying 20% value-added tax on tuition fees of private schools in the UK, it is estimated that the annual fiscal revenue will increase by about 2.5 billion pounds [6]. According to the budget of the Ministry of Finance, this part of the new revenue will provide additional financial support for the public education system. From the perspective of financial data, the proportion of value-added tax revenue in the total government revenue has remained at about 20% in the past decade, which provides a guarantee for education investment.

2.2.2 Optimisation of the allocation of educational resources

The use of VAT revenue will focus on improving teaching conditions in public schools. According to Fig. 2, which is the statistical data of the 2022-23 academic year, the use of electronic teaching

equipment in state schools is relatively high, including 86% of interactive whiteboards and 86% of computers [7]. Digital technology provides support for education, gives students the motivation to learn, provides students with opportunities for creative activities to a great extent, and improves students' enthusiasm for independent work [8]. The renewal and maintenance of this equipment need to be continuously invested, and the value-added tax revenue has contributed to this funding source. Research shows that adequate teaching equipment plays a positive role in improving students' digital literacy, and digital skills are closely related to students' future development [9]. Therefore, this fund can be used to improve the facilities of state schools and improve students' digital literacy, to make education more in line with the needs of the times.

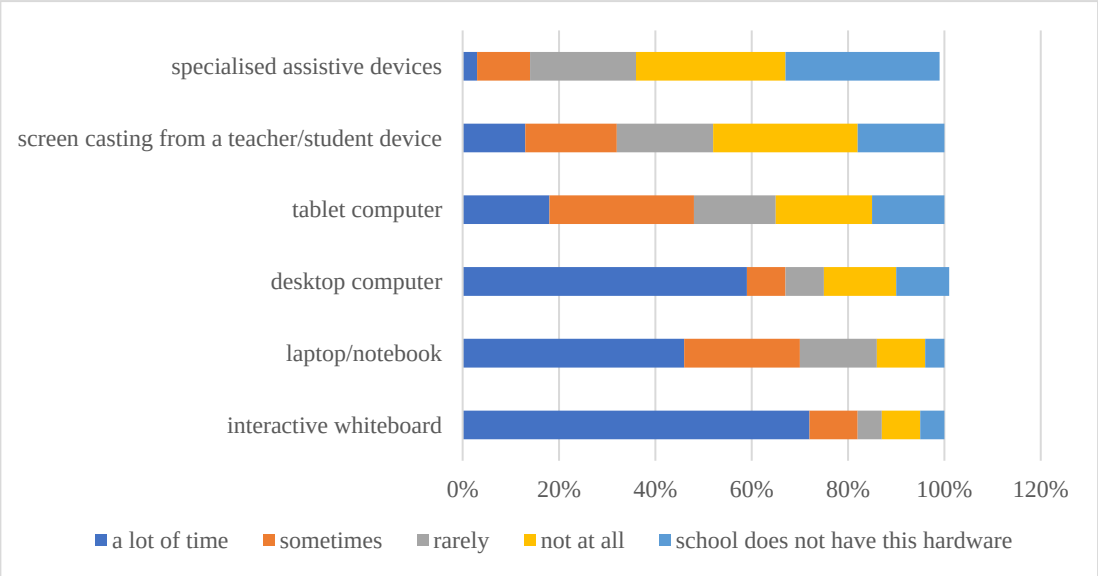

Fig. 2 School hardware usage frequency.

2.2.3 Construction of teaching staff

Part of the VAT income can also be used to improve the professional level of state school teachers. In recent years, there has been the problem of high mobility of teachers in public schools [10]. By increasing the investment in teacher training and optimising the salary structure, it will help to stabilise the teaching team and improve the teaching quality. Educational research shows that students' academic achievement is positively related to the degree of students' participation in class and the education and educational environment provided by schools and teachers; the welfare of teachers will affect the enthusiasm of teachers in the classroom, thus affecting the performance, enthusiasm and happiness index of students [11]. Therefore, this fund can be used to provide training for teachers and improve their salaries, to reduce the imbalance of educational resources, narrow the gap of educational quality between state and private schools, and achieve the goal of win-win cooperation between teachers and students.

The implementation of VAT policy provides a new source of funds for improving public education. Through the rational allocation of funds, the government and schools can make progress in the renewal of teaching equipment and the construction of teaching staff. In the follow-up, they need to continuously track the implementation effect of the policy and optimise the fund use plan to better promote the balanced allocation of educational resources.

3. Existing Development Obstacles and Their Causes

3.1. The New Situation of the Balance of Government Revenue and Expenditure

The implementation of the Value Added Tax policy has brought new changes to the British financial system. According to preliminary calculations, this tax can increase the fiscal revenue of about 2.5 billion pounds per year, which will be used to support the construction of the public

education system [6]. However, it should pay attention to the possible financial impact of student mobility [12]. In case of large-scale student transfer, the education financial system may need to adjust the resource allocation scheme accordingly. This dynamic balance relationship requires continuous observation and timely optimisation in the process of policy implementation to ensure the normal operation of the education financial system.

3.2. Adaptive Adjustment of the Public Education System

After the policy is implemented, the public school system will enter a new stage of development. From the perspective of resource allocation, it needs to consider the following aspects of adaptive adjustment: first, in terms of student acceptance, state schools will face certain pressure; secondly, there will be a certain shortage of teachers in the allocation of teachers. Limited by the construction cycle, some schools may face resource constraints during the transition period. These challenges need to be properly addressed through systematic resource allocation and gradual reform.

3.3. The Operational Transformation and Adjustment of Private Schools

Private schools operate through tuition fees, donations, and external funding [13]. In addition to other operating costs that must be borne, such as teachers' salaries and facility maintenance, VAT's additional 20% tax revenue puts it face certain financial pressure. In terms of core competitiveness, private schools often choose to invest in a large number of characteristic courses, and they also face the pressure of operating costs. According to the research shared by the education consulting company Anglo Schools International Services (ASIS) and the independent, by the end of July 2024, 27% of parents have chosen not to accept the coming academic year admission of private high schools, while the usual figure is 10-15% [14].

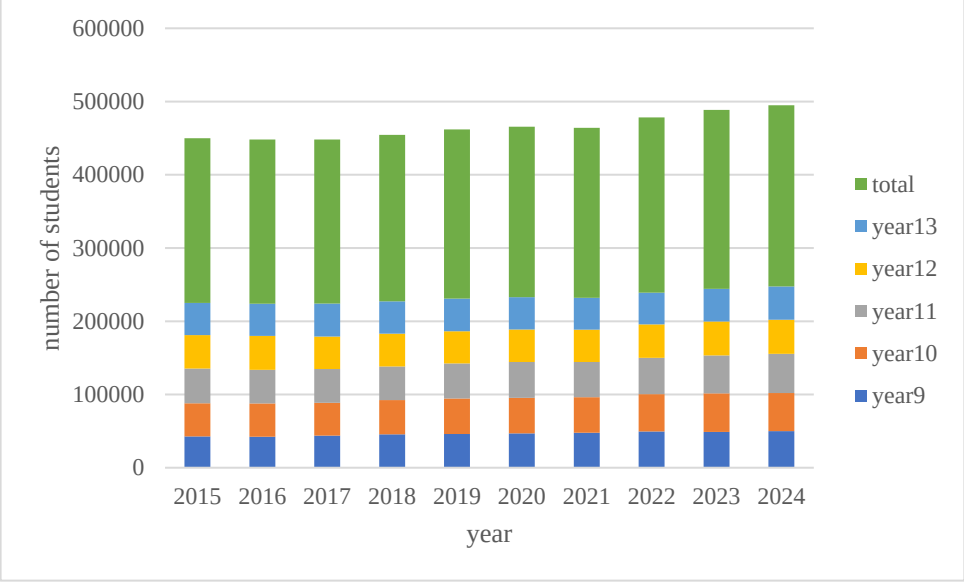

Fig. 3 The number of students in private schools each year.

As shown in Fig. 3, in the past ten years, except that the average number of students in private secondary schools (year 9- year 13) decreased slightly in 2016, the number of students in other years increased in a relatively stable trend, so the tuition income was stable [15]. A large number of students choose to transfer schools, which will bring pressure on the financial stability of schools, which will lead to the collapse of the UK private school sector, and transfer the impact of up to 600,000 former private school students to the state sector, that is, state schools, which is expected to bring a recurrent net cost impact of 4.2 billion pounds to the UK Ministry of finance every year [6]. In addition, one in five private schools may face the result of closure [16].

3.4. The Development of Family Education Decision-Making

The change of policy has chosen family education to present new characteristics. According to Fig. 4, in the past 10 years, due to the small adjustment of tax policy and the impact of inflation, the growth rate of tuition fees for day students in the UK has been relatively stable compared with that of boarding students' credits, but at the same time it has shown an upward trend. After a 20% increase in value-added tax, the school will adjust its financial revenue and pressure by charging more tuition fees. According to the Daily Telegraph's analysis of fee changes in 946 private schools in England, Scotland, and Wales, about half of these schools increased their tuition fees by 15% or more, and one-fifth of them increased their tuition fees by 20%. Eton Public School said that it would raise the tuition fee from 17,583 pounds per semester to 21,099.60 pounds in January 2025 [17]. Since 1980, the actual tuition fees of private schools have tripled. Despite the increasing income, the average cost of a child has risen from 20% to 50% of the median income. Therefore, for a large number of families who choose to continue studying in private schools, the tuition has become difficult to afford with the current income [9]. According to the existing research, if only the children of rich and successful parents can get the best educational opportunities, inequality will be more persistent compared with a society in which education depends less on family background [18].

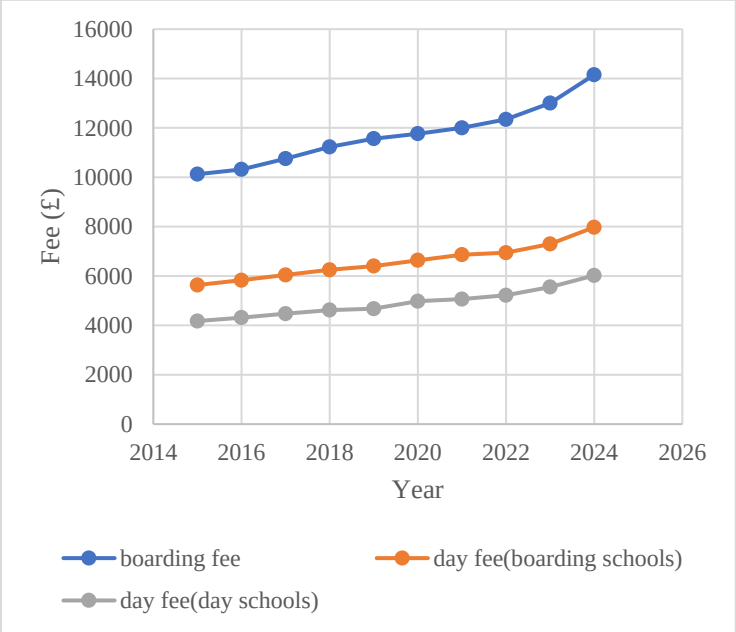

Fig. 4 Trends in tuition fees for private schools in the UK.

3.5. Balancing Challenges

The government is bringing more fiscal revenue to support public finance by collecting Value Added Tax from private schools and helping to fulfil the government's commitment to young people and education, to ensure that every child can obtain high-quality education [3].

As mentioned above, this may not improve the resource allocation of public education; more students transferred to middle state schools means that those schools need to bear more costs. At the same time, it also causes a lot of financial pressure on private schools.

4. Enlightenment

The British government's policy of levying Value Added Tax on private school tuition reflects the far-reaching impact of fiscal policy on the education system, aiming to balance the educational resources of state and private schools, increase the available funds for public education, and promote educational equity [19]. From the perspective of the short-term implementation effect, the policy has brought many challenges and discussions.

First, a more systematic evaluation framework should be established at the policy design level, including the construction of a dynamic monitoring index system to regularly evaluate the effect of policy implementation [20]. Carry out medium-and long-term impact prediction research, especially the simulation analysis of structural changes in the education system, and establish a flexible mechanism for poly adjustment to ensure appropriate optimisation according to the actual situation.

Secondly, in terms of resource allocation, more precise support strategies need to be adopted, including formulating differentiated support schemes according to the characteristics of different regions and different types of schools; establish a performance evaluation system for the use of special funds and optimise the financial transfer payment mechanism to ensure the timeliness and effectiveness of resource allocation. Existing study shows that linking the new financial investment with the indicators of improving the quality of education can significantly improve the efficiency of the use of funds [21].

Third, it should pay attention to multi-party coordination in the coordinated development of the system. The research suggests that a public-private school cooperation platform should be established to promote the sharing of high-quality educational resources, encourage cross-sectoral cooperation in educational innovation projects, and support characteristic school running to meet the needs of diversified education. For example, it can learn from the experience of the 'public private school alliance' in some European countries to achieve complementary advantages based on maintaining their characteristics [22].

Finally, it needs to build a long-term mechanism for sustainable development. The key points include improving the teacher professional development system, promoting the digital transformation of education, and infrastructure construction planning to meet future needs [22].

To sum up, the optimisation of education fiscal policy should be based on the three principles of systematicness, accuracy, and sustainability. Through scientific assessment, resource optimisation, system coordination, and long-term mechanism construction, it can better promote the healthy development of the British education system and provide solid talent support for economic and social development. Future research can further explore the synergy mechanism between tax policy and education innovation and provide a more comprehensive reference for policymaking.

5. Conclusion

Based on the systematic analysis of the Value Added Tax (VAT) policy in the UK, this article discusses its positive impact in the field of education, the challenges faced in the implementation process, and the enlightenment for future development. The study found that the implementation of VAT policy increased the government's fiscal revenue by about 2.5 billion pounds and provided important support for the renewal of teaching equipment, the construction of teaching staff and the improvement of digital literacy in state schools. By optimising the allocation of resources, the policy helps to narrow the gap between public and private schools and promote educational equity.

However, the policy also faces some challenges in the implementation process. Despite these challenges, this article believes that VAT can still play a positive role through reasonable policy optimisation. It is suggested to establish a dynamic monitoring mechanism to accurately evaluate the policy effect, strengthen the cooperation between state and private schools and promote resource sharing, improve the teacher training system, and improve the quality of education. At the same time, the government can alleviate economic pressure and ensure policy fairness through gradual reform, such as providing subsidies to low-income families.

In general, the UL VAT policy shows the potential of fiscal tools in education governance, and its implementation effect depends on the flexibility of policy design and the perfection of supporting measures. Future research can further focus on the long-term impact of policies on different social strata and provide a more comprehensive reference for the sustainable development of education equity.

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