CONSUMING THE STATE: THE EVOLUTION OF UK INDIRECT TAX

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Abstract

The United Kingdoms tax system is changing. This article looks at how the United Kingdoms indirect tax system has evolved over time until 2026. It focuses on three parts: Value Added Tax, taxes on things like alcohol and tobacco and environmental taxes like those on cars. The United Kingdom used to tax peoples income a lot. Now it is taxing the things people buy more. This article checks if this is a way to get money for the country and if it is fair for everyone. The article also looks at how the Value Added Tax system's not working well because some essential things are not taxed. This means the United Kingdom does not get much money from Value Added Tax as other countries do. Then it looks at the way of taxing alcohol, which was changed in 2023. Now alcohol is taxed based on how strong it's which is a simpler and fairer system. The article also talks about taxes on the environment like taxes on waste and fuel for cars. It says that while taxing waste has made companies behave better not changing the tax on fuel for cars for a time has lost the country a lot of money about £120 billion.

The article ends by saying that as more people buy cars the country will lose a lot of money from taxes, on fuel. So the country needs to find ways to tax people that will work in the long term like charging people to use the roads.

Keywords: Indirect Taxation, Value Added Tax, Excise Duty, Alcohol Duty Reform, Fuel Duty Freeze, Fiscal Policy, United Kingdom.

BUYUK BRITANIYADA BILVOSITA SOLIQLAR TIZIMINING EVOLYUTSIYASI

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ANNOTATSIYA

Buyuk Britaniyaning soliq tizimi doimiy ravishda o'zgarib bormoqda. Ushbu maqolada 2026-yilgacha Buyuk Britaniyada bilvosita soliqqa tortish tizimining evolyutsiyasi tahlil qilinadi. Tadqiqot uchta asosiy yo'nalishga qaratilgan: qo'shilgan qiymat solig'i (QQS), alkogol va tamaki kabi mahsulotlarga qo'llaniladigan aksiz soliqlari hamda avtomobillar bilan bog'liq ekologik soliqlar. Avvallari Buyuk Britaniya asosan fuqarolarning daromadlarini soliqqa tortishga tayanar edi. Hozirgi kunda esa davlat iste'mol qilinadigan tovar va xizmatlarni ko'proq soliqqa tortmoqda. Mazkur maqolada bunday yondashuv davlat byudjeti uchun samarali daromad manbai bo'la oladimi va u jamiyat uchun qay darajada adolatli ekanligi baholanadi. Shuningdek, tadqiqotda QQS tizimining ayrim kamchiliklari ko'rib chiqiladi. Xususan, bir qator zaruriy iste'mol mahsulotlari QQSdan ozod etilgani sababli Buyuk Britaniya boshqa ko'plab mamlakatlarga nisbatan QQS orqali kamroq daromad olmoqda.

Bundan tashqari, maqolada 2023-yilda amalga oshirilgan alkogol soliqlari islohoti tahlil qilinadi. Yangi tizimga ko'ra, alkogol mahsulotlari ularning tarkibidagi spirt miqdoriga qarab soliqqa tortiladi, bu esa avvalgi tizimga nisbatan sodda va adolatliroq hisoblanadi.

Maqolada chiqindilar va avtomobil yoqilg‘isi bilan bog‘liq ekologik soliqlar ham muhokama qilinadi. Tahlillar shuni ko‘rsatadiki, chiqindilarni soliqqa tortish korxonalarni ekologik jihatdan mas’uliyatliroq harakat qilishga undagan bo‘lsa-da, avtomobil yoqilg‘isi bo‘yicha soliq stavkalarining uzoq vaqt davomida o‘zgartirilmagani davlat byudjetining taxminan **120 milliard funt sterling** miqdoridagi daromaddan mahrum bo‘lishiga olib kelgan. Maqola xulosasida ta’kidlanishicha, elektr avtomobillari sonining ortib borishi natijasida davlat yoqilg‘i soliqlaridan olinadigan daromadlarning sezilarli qismini yo‘qotadi. Shu sababli, uzoq muddatda barqaror fiskal siyosatni ta’minlash uchun, masalan, yo‘llardan foydalanish uchun to‘lov tizimi kabi yangi soliqqa tortish mexanizmlarini joriy etish zarur.

Kalit so‘zlar: bilvosita soliqqa tortish, qo‘shilgan qiymat solig‘i (QQS), aksiz solig‘i, alkogol soliqlari islohoti, yoqilg‘i boji muzlatilishi, fiskal siyosat, Buyuk Britaniya.

INTRODUCTION

The way the British government gets its money is based on a contradiction. People mostly talk about taxes like income tax and national insurance.. The government actually gets a lot of its money from indirect taxes. These are taxes on things people buy.

Over the 50 years the UK has changed how it gets its money. It now relies more on what people spend of what they earn. Indirect taxes are no longer just used to control parts of the economy. They are now a way for the government to get money. Value Added Tax or VAT is a part of this. There are also taxes on things like alcohol, tobacco and fuel. These taxes bring in hundreds of billions of pounds every year. They help pay for services and try to change peoples behavior. This change did not happen by accident. In 1979 the government decided to lower taxes to encourage people to work and invest. They increased VAT to balance the books. Since then this model has grown. Today the UKs indirect tax system faces challenges. VAT is not very efficient because some things like food are exempt. The government also has to change taxes on things like alcohol to fit with health goals. One of the challenges is environmental taxes. These taxes are meant to punish people for polluting.. If they are successful they make less money. Most environmental taxes come from fuel. With more electric cars on the road and frozen fuel duty the government faces a big hole in its finances.

As the UK deals with a changing economy it is essential to understand taxes. This article looks at how these taxes have changed over time. It analyzes how the government balances its need for money with changing consumer behavior and environmental goals. The British state has to balance its need for public revenue against changing consumer behaviors and global environmental mandates.

BODY PART

The British tax system has changed a lot over the fifty years. While people often talk about taxes like Income Tax and National Insurance the government actually gets a lot of its money from indirect taxes. These are taxes that are collected by shops, manufacturers and service providers from the people who ultimately pay them which're the consumers.

This analysis looks at the three parts of the UKs indirect tax system: Value Added Tax, taxes on certain goods like alcohol and tobacco and Environmental Taxes. By looking at how these taxes have changed from the 20th century to the present day we can understand how the government funds itself and how it tries to influence consumer behavior.

1. The Evolution of Value Added Tax

Value Added Tax was introduced in the United Kingdom on April 1 1973 by Chancellor Anthony Barber. The UK had to introduce Value Added Tax because it was joining the European Economic Community, which is now known as the European Union. Value Added Tax replaced two tax systems: Purchase Tax, which was a tax on luxury goods and Selective Employment Tax, which was a tax on employers in the service sector.

From the start Value Added Tax was a small tax on things people buy. Over time it has become one of the most important sources of money for the government.

The 1979 Fiscal Change and the Standard Rate

The big change in Value Added Tax happened in June 1979. The new Conservative government, led by Margaret Thatcher and Chancellor Geoffrey Howe decided to reduce taxes on income and make up for the lost money by increasing taxes on the things people buy. They cut the rate of Income Tax from 33% to 30% and the top rate from 83% to 60%. To make up for this they increased the rate of Value Added Tax from 8% to 15%. This change effectively doubled the amount of money the government got from Value Added Tax overnight.

Later governments also used Value Added Tax to fund policies or manage financial crises:

The 1991 Increase: Chancellor Norman Lamont increased the rate from 15% to 17.5%. This was to generate money to reduce the Community Charge also known as the "Poll Tax".

The 2008 Emergency Reduction: In December 2008 Chancellor Alistair Darling temporarily reduced the rate back to 15% for 13 months. This was to help the economy during the crisis by reducing prices and encouraging people to spend money.

The 2011 Increase: On January 4 2011 Chancellor George Osborne increased the rate to 20%. This was part of the governments plan to reduce the budget deficit after the crisis.

Table 1.1: Historical and Modern Value Added Tax Rates

Date	Standard Rate	Reduced Rate	Reason
April 1, 1973	10.0%	N/A	Joining the European Economic Community
July 29, 1974	8.0%	N/A	Reducing inflation before an election
June 18, 1979	15.0%	N/A	Funding cuts to Income Tax
April 1, 1991	17.5%	N/A	Reducing the Community Charge
April 1, 1994	17.5%	8.0%	Introducing a reduced rate for domestic fuel
September 1, 1997	17.5%	5.0%	Reducing energy tax
December 1, 2008	15.0%	5.0%	Emergency stimulus during the financial crisis
January 1, 2010	17.5%	5.0%	Restoring the pre-crisis standard rate
January 4, 2011	20.0%	5.0%	Reducing the budget deficit

The data in Table 1.1 shows that changes to Value Added Tax rates are not minor. They are changes that affect the whole economy. The standard rate has gone from 8% in 1979 to 20% in the mid-2020s. This shows that the government prefers to tax the things people buy than the money they earn.

Value Added Tax is an efficient tax to collect. Businesses keep track of the tax they pay on the things they buy. The tax they charge on the things they sell. This means that the tax is collected automatically. However the data also shows that Value Added Tax can be unfair to people with incomes. They spend a percentage of their money on everyday things so they pay more Value Added Tax.

To understand how important Value Added Tax is we need to look at how money it generates. According to the Office for Budget Responsibility Value Added Tax generates around £175 billion to £180 billion every year. This makes it the biggest source of money for the government after Income Tax.

The Politics of the Tax Base: Exceptions and Zero-Rating. The amount of money the government gets from Value Added Tax depends on two things: the tax rate and the tax base. The tax base is the amount of money spent on things that are subject to Value Added Tax. The government has to decide what things to include in the tax base and what things to exclude.

The UK has a lot of exceptions to Value Added Tax. Some things, like food, water and transport are not subject to Value Added Tax. This is known as zero-rating. Businesses that sell these things do not charge Value Added Tax. They can still claim back the tax they paid on the things they bought.

The UK has a lot of zero-rated things, including:

- Food
- Water
- Transport
- Books and newspapers
- Medicines and medical equipment
- Childrens clothing and shoes

This means that a lot of the money spent by consumers is not subject to Value Added Tax. Economists use a measure called the VAT Revenue Ratio to compare the amount of Value Added Tax collected to the amount that would be collected if all consumer spending were subject to the standard rate. The UKs VAT Revenue Ratio is around 45% to 48% which means that more than half of all consumer spending is not subject to the rate.

Theoretical Maximum UK VAT Base

(if 20% VAT applied to all consumption)

Actual UK VAT Base Harvested

(due to zero-rates and exemptions)

The political battle about the expansion of this base has been very intense. For example when the government added a tax to fuel in 1994 it caused a lot of resistance. This tax was 8% at first. It was later reduced to 5% in 1997.

In years the government has been careful not to increase the standard tax rate of 20% or remove the zero-rate taxes on popular items. This is because people are already feeling the pressure of the cost of living. Instead the government has used a method called " drag." This means that the threshold at which small businesses and sole traders have to register for tax was kept at £85,000 for a time.

When there was inflation in the mid-2020s businesses had to pay more taxes even if they were not selling more. This is because the tax threshold was not increased so more businesses had to pay the 20% tax. The government recently increased the threshold to £90,000 to help small businesses a little bit.

2. Taxes on Goods: Sin Taxes, Laffer Curve and Changes to Alcohol Tax

Taxes on certain goods like alcohol and tobacco are some of the oldest taxes in the UK. These taxes are different from the tax, which is a percentage of the final price. Instead they are based on the quantity of the goods like the amount of alcohol in a drink.

These taxes are often called "sin taxes" because they are used to discourage people from buying things that're bad for them. They also help the government get an income from these taxes. The idea is that people will still buy these goods even if they are expensive so the government can make money from them.

Changes in Tax Trends. Over the years the government has changed the way it taxes goods. For example taxes on tobacco and fuel have increased a lot while taxes on alcohol have actually decreased. The government used to increase taxes on fuel every year. It stopped doing that. Instead it has kept the tax rate the same, which means that the tax has actually decreased because of inflation.

Table 2.1: Taxes as a Percentage of the Final Price

Year	Cigarettes	Beer	Wine	Spirits	Petrol	Diesel
1978	72%	30%	45%	78%	47%	49%
1988	77%	35%	48%	69%	68%	63%
1998	81%	30%	50%	63%	82%	82%
2008	79%	29%	55%	60%	62%	58%
2020s	84%	34%	59%	68%	55%	53%

The table shows how much tax is included in the price of different goods. For example the tax on cigarettes has increased from 72% in 1978 to 84% in the 2020s. This is because the government wants to discourage people from smoking.

Cigarettes: The tax on cigarettes has increased a lot over the years. This is because the government wants to make smoking more expensive for young people.

Fuel: The tax on fuel was very high in the 1990s but it has decreased since then. This is because the government stopped increasing the tax rate every year.

Alcohol: The tax on alcohol has changed a lot over the years. For example the tax on spirits decreased in the 2000s. It has increased again recently.

The 2023 Changes to Alcohol Tax. In 2023 the government made changes to the way it taxes alcohol. Of taxing different types of alcohol at different rates the government now taxes all alcohol based on its strength. This means that stronger drinks are taxed more than ones.

The government also introduced a system of tax bands, which are based on the strength of the alcohol. For example drinks with an alcohol content of than 3.5% are taxed at a lower rate than stronger drinks.

Table 2.2: Changes in Tax Rates

Type of Alcohol	1978 Tax Rate	2008 Tax Rate	2023 Tax Rate
Beer	£14.61	£14.96	£21.01 (standard rate) / £19.08 (draught rate)
Wine	£25.85	£16.19	£28.50 (flat rate)
Spirits	£45.29	£21.35	£31.64 (flat rate)

The table shows how the tax rates on different types of alcohol have changed over the years. For example the tax rate on spirits has decreased from £45.29 in 1978 to £31.64 in 2023. However the government has recently increased the tax rate on spirits to make up for the decrease in the past.

The government gets around £12.5 billion to £13 billion per year from taxes on alcohol. This is a lot of money. It helps the government pay for important things, like healthcare and education.

The high tax rates on things like alcohol and fuel can actually reduce the amount of money the government gets from these taxes. This is because of something called the **Laffer Curve**.

When taxes are too high people might start buying these things from countries where the taxes are lower or they might even buy them illegally. This can reduce the amount of money the government gets from these taxes.

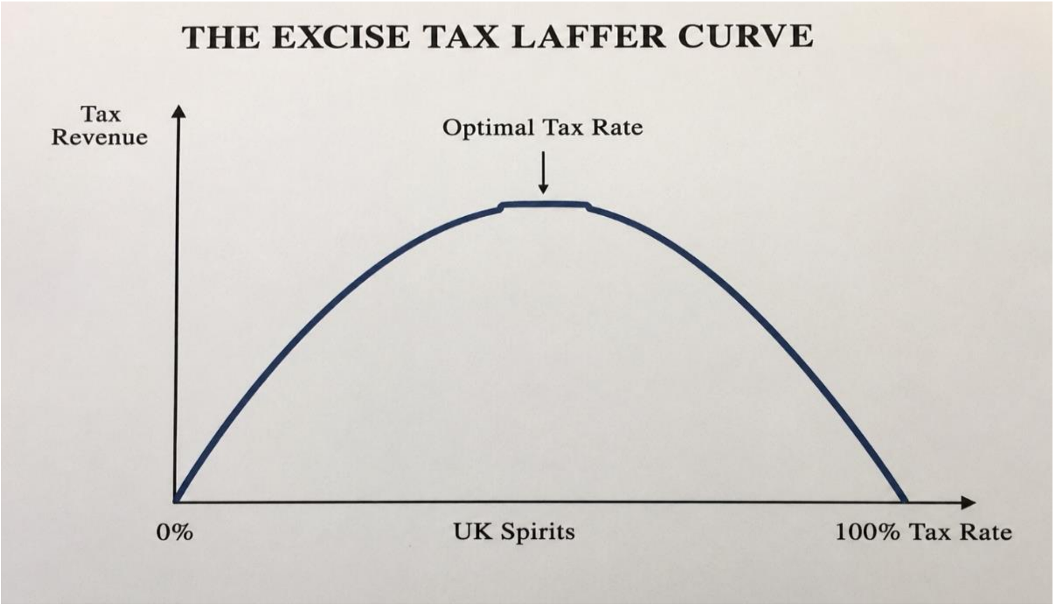


Figure 1. The Excise Tax Laffer Curve for UK Spirits

Between 1978 and 2008 the government reduced the taxes on spirits. This helped to reduce the amount of trading and made sure the government got a more stable amount of money from these taxes. The government also changed the way it taxes spirits so that stronger drinks are taxed heavily. This is supposed to help improve health.

3. Environmental Taxation: Motoring Revenues and the Great Fuel Duty Freeze Paradox

The government uses taxes to try to reduce the amount of pollution and protect the environment. These taxes are supposed to make companies and people pay for the pollution they cause. In the UK these taxes bring in a lot of money around "£40 billion to £45 billion" every year.

However most of this money comes from taxes on driving like the tax on fuel and the tax on vehicles. This is not a balanced way of doing things because it does not make other polluters pay as much.

The Domination of Motoring Levies

There are two taxes that bring in most of the money:

1. Fuel Duty: This is a tax on the fuel people buy for their cars.

2. Vehicle Excise Duty (VED): This is a tax people pay every year to drive their cars on roads.

Together these two taxes, plus the VAT on top of them bring in over 90% of all the money from taxes.

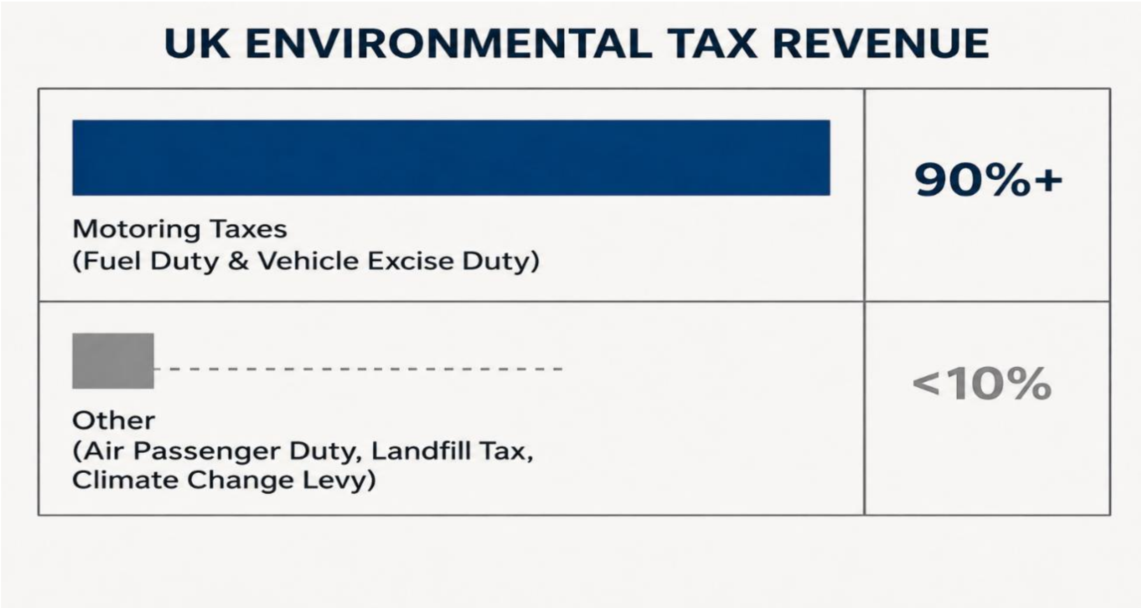


Figure 2. Composition of UK Environmental Tax Revenue

The other environmental taxes, like the tax on air travel and the tax on waste bring in much less money:

Air Passenger Duty (APD): This is a tax on flights. It brings in around £3.5 billion to £4 billion every year.

Landfill Tax: This is a tax on waste that is sent to landfills.

Climate Change Levy (CCL): This is a tax on companies that use a lot of energy.

Aggregates Levy: This is a tax on companies that dig up sand, gravel and rock.

The Fuel Duty Freeze and the £120 Billion Revenue Gap. The government has not increased the tax on fuel for a time even though it is supposed to go up every year with inflation. This has cost the government a lot of money over £120 billion.

The government has had to find ways to make up for this lost money like freezing the amount of money people can earn before they pay income tax.

Table 3.1: The Macroeconomic Impact of the Fuel Duty Freeze

<table>
<tr><th>Fiscal Milestone</th><th>Statutory Intended Fuel Duty Rate (RPI-Indexed)</th><th>Actual Implemented Fuel Duty Rate (Nominal)</th><th colspan="2">Annual Revenue Forgone by Treasury (Estimated)</th><th>Cumulative Fiscal Cost to Public Sector</th></tr>
<tr><td>2011–12</td><td>58.95p/litre</td><td>57.95p/litre</td><td colspan="2">~£800 million</td><td>£800 million</td></tr>
<tr><td>2015–16</td><td colspan="2">64.20p/litre</td><td>57.95p/litre</td><td>~£3.2 billion</td><td>£11.5 billion</td></tr>
<tr><td>2019–20</td><td colspan="2">71.10p/litre</td><td>57.95p/litre</td><td>~£5.5 billion</td><td>£38.0 billion</td></tr>
</table>

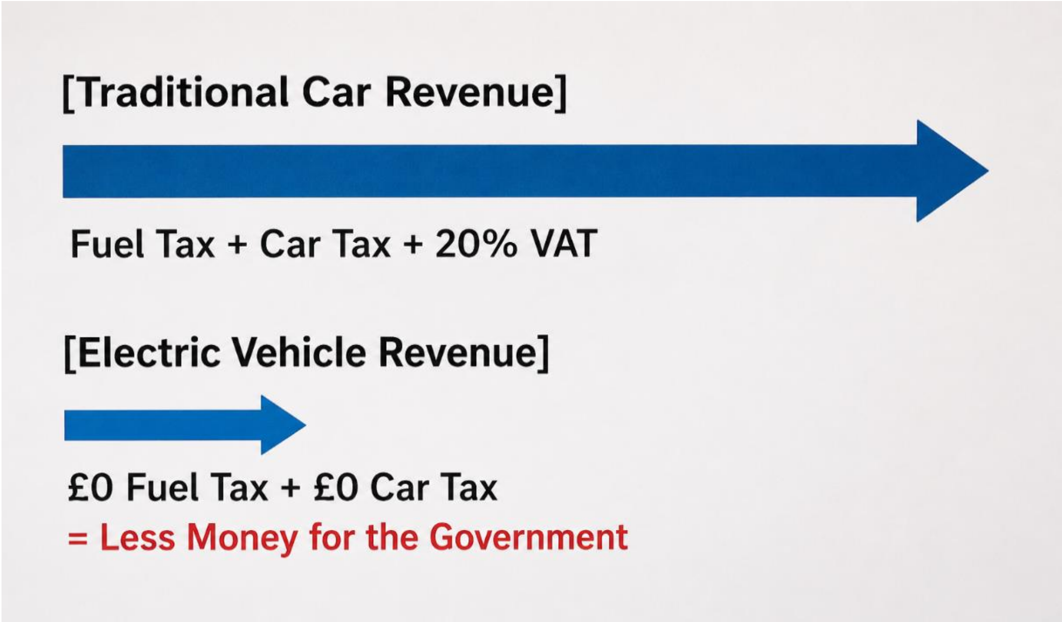
2022–23	82.40p/litre	52.95p/litre	~£9.1 billion	£74.5 billion
Modern Era	96.50p/litre	52.95p/litre	~£12.4 billion	**£120.0+ billion**

The numbers in the table show that the government has lost a lot of money by not increasing the tax on fuel. The tax is now over 30% cheaper than it was in 2010 in terms.

The government has had to find ways to make up for this lost money, which has been difficult.

There is a problem with taxes: if they work well they can reduce the amount of money the government gets from them. This is because people and companies will try to avoid the things that are taxed like pollution.

For example the tax on waste sent to landfills has worked well because it has made people and companies reduce the amount of waste they send to landfills.



However this means that the government gets money from this tax.

Figure 3. Comparison of Government Tax Revenue from Traditional and Electric Vehicles

The same thing is happening with the tax on fuel because people are starting to use vehicles instead of cars that run on fuel. This is good for the environment. It means that the government will get less money from the tax, on fuel.

The switch to Electric Vehicles is a problem for the way we tax cars. Normally we tax cars based on how much they pollute. Electric Vehicles do not pollute, so they were not taxed. Also Electric Vehicles do not use petrol or diesel which means the government does not get money from fuel taxes.

The government gets around £30 billion to £35 billion every year from fuel taxes and car taxes. As more people buy Electric Vehicles the government will get less money.

To stop this from happening the government had to change the way it taxes cars. Now Electric Vehicles have to pay car tax like cars.. This only solves part of the problem. The government still needs to find a way to replace the £24 billion it gets from fuel taxes every year.

One way to do this is to tax cars based on how miles they are driven how heavy they are and how congested the roads are. This is called Road Pricing.

The Complex System of Taxes. The way the government taxes uss a complex system that tries to balance the need for money with what is good for society and the environment.

Value Added Tax is a source of money for the government bringing in around £180 billion every year. It is not perfect because some things are not taxed, like food and childrens clothes to help poor people.

The government has also changed the way it taxes alcohol so that stronger drinks are taxed more. This helps to improve health and protect pubs.

The way we tax things that are bad for the environment is changing. The government gets a lot of money from taxing cars. As people switch to Electric Vehicles this money will decrease.

As peoples habits change and the country tries to reduce carbon emissions the tax system needs to change. The government needs to find a way to tax people that's fair and will bring in enough money to pay for public services.

The government needs to make sure that Electric Vehicles are taxed in a way that's fair and will bring in enough money. Electric Vehicles are becoming more popular. The government needs to find a way to replace the money it loses from fuel taxes. The government needs to think about how to tax Electric Vehicles and other things that are good for the environment so that it can still bring in money. Electric Vehicles are a part of the solution to reducing carbon emissions but they also create problems, for the tax system.

CONCLUSION

The way the United Kingdom collects taxes has changed a lot over the years. The government has tried to balance the need for money with the need to help people and the environment. From 1979, when the government started using consumption tax as a source of income to the present day indirect taxes have become a big part of the countrys budget.

As we have seen the governments tax policy is stuck between what's good for the economy and what is good for people.

The Value Added Tax (VAT) brings in a lot of money up to £180 billion every year. The way it is set up means that it does not bring in as much money as it could. The government does not charge VAT on things like food and childrens clothes, which helps people who do not have a lot of money. This also means that the government loses out on some money.

The Excisable “Sin” Taxes have changed a lot over the years. Now the government taxes things like alcohol based on how strong they're. This helps to encourage companies to make drinks that're not as strong. The government also gives some money back to pubs and bars that sell drinks on tap.

The Motoring Levies are in big trouble. The government gets a lot of money from taxing people who drive. This is not a good way to get money in the long term. The government has not increased the tax on fuel for a time, which means it has lost out on a lot of money. Also as more people start driving cars the government will get even less money from taxing drivers.

The problem with the way the government collects taxes is that the taxes that work well will eventually stop bringing in as much money. As people start to drive cars and the country becomes more environmentally friendly the government will need to find new ways to get money.

To make sure the country has money without hurting people who do not have a lot the government needs to come up with new ideas for indirect taxes. This could include charging people to drive on roads or making more things subject, to VAT. The government needs to make sure that the tax system can adapt to the changing world.

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