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FINANCIAL SECRETARY TO THE TREASURY

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Chief Executive James Strachan
Eastleigh Borough Council
Eastleigh House
Upper Market Street
Eastleigh
SO50 9YN

9 August 2022

Dear James,

Thank you for your letter of 7 July to the Chancellor of the Exchequer on behalf of Eastleigh Borough Council about VAT and the cost of Living. I am replying as Minister responsible for the UK tax system, I am sorry for the delay. I note this correspondence was also sent to Department for Work and Pensions (DWP), you may also receive a separate response from the DWP.

On your first point about a reduction in VAT rate. The Government's package of support, which was announced in May, is worth £15 billion and is more generous than a VAT cut. It provides targeted support to those who need it.

A VAT cut would come at a considerable cost to the Exchequer and even a temporary zero-rate for VAT on domestic fuel and power is likely to become permanent. Further, there would be no guarantee that suppliers would pass on the discounts to all customers, it would not be targeted because it would also benefit high-income households that do not need support. The Government recognises that families should not have to bear all of the VAT costs they incur to meet their needs, with domestic fuels such as gas, electricity and heating oil already subject to the reduced rate of 5 per cent of VAT. Therefore, while all taxes are kept under review, there are currently no plans to reduce or remove the standard rate of VAT.

With regards to the reintroduction of the State Pension Triple Lock, the Government is committed to ensuring that older people are able to live with the dignity and respect they deserve, and the State Pension is the foundation of state support for older people. Since 2010, the State Pension has been uprated by the highest of average earnings growth, price inflation or 2.5 per cent - an approach known as the Triple Lock. From April this year, the full yearly amount of the basic State Pension is around £720 more in 2022/23 than if it had been up-rated by prices since 2010. That's a rise of over £2,300 in cash terms. In total, the Government is forecast to spend over £110 billion on the State Pension, and over £134 billion on overall benefits for pensioners in 2022/23.

Due to the effects of the pandemic and furlough on the labour market, reported average wage growth based on May-July earnings data increased markedly in 2021 to above 8 per cent - which was an anomaly. Increasing pensions by more than 8 per cent would have been unfair, unsustainable, and hugely costly (at around £5 to £6 billion per year). That is why the Government took the responsible and fair decision to temporarily move to a double lock. This is a temporary change for one year only and the Government remains committed to implementing the Triple Lock for the remainder of the Parliament.

You also suggest restoring the Universal Credit supplement of £20. Since the start of the pandemic, the Government has always been clear that the £20 increase was a temporary measure to support households affected by the economic shock of Covid-19. As a result, Universal Credit Claimant Assessment Periods that ended on or after 6 October 2021 have not included the additional £20 per week.

The Department for Work and Pensions recognises that work is the best route to prosperity. Alongside the comprehensive Plan for Jobs, the Government is now taking further action to make work pay for low-income households on Universal Credit. New measures introduced at the Autumn Budget show we are taking decisive action to make work pay. Cutting the taper rate from 63 per cent to 55 per cent and increasing the work allowance by £504 per year means that 1.9 million working households will be able to keep substantially more of what they earn.

In response to fuel prices reaching record ever levels, the Government announced at Spring Statement 2022 a temporary 12-month cut to duty on petrol and diesel of 5p per litre. This is the largest cash-terms cut across all fuel duty rates at once, ever, and is only the second time in 20 years that main rates of petrol and diesel have been cut. This cut represents savings for households and businesses, worth around £2.4 billion in 2022-23.

Revenue from motoring taxes and VAT ensures we can continue to fund the vital public services and infrastructure that people and families across the UK expect. Revenue from motoring taxes and VAT ensures we can continue to fund the vital public services and infrastructure that people and families across the UK expect.

The Government understands the pressures that people across the UK are currently facing with the cost of living. This is why the Government is providing £37 billion of support to households to help with these costs. Following the further support package announced in May, the most vulnerable households will get at least £1,200 of one-off support in total this year to help with the cost of living. The package of support includes:

- A £150 non-repayable cash rebate for around 80 per cent of households in England, delivered as a payment to all households in Council Tax bands A-D, as announced in February. The Government is also providing £144 million of discretionary funding for Local Authorities to support households who need support but are not eligible for the council tax rebate.
- A £400 direct cash grant through the Energy Bills Support Scheme from October.
- A one-off payment of £650 directly to all households on means-tested benefits (including Universal Credit) through Department for Work and Pensions' Emergency Payment Service.

Thank you again for getting in touch on this matter.

Yours sincerely,

THE RT HON LUCY FRAZER QC MP