**VAT rise means £2.2bn in lost sales, says report**

The rush by consumers to beat the VAT rise means spending in the January sales will be up on last year. Retail sales will fall by about £2.2bn in the first quarter of 2011 because of the rise in VAT, according to a report.

It says consumers will rein in their spending after the standard rate of VAT rises from 17.5% to 20%.

The Centre for Retail Research and Kelkoo, the online shopping group, say spending in the January sales will rise by about 1.6% to £22.5bn as consumers try to beat the rise. But they say this will be the "last hurrah" before the VAT rise kicks in.

The rate rise affects any VAT-registered business that sells or purchases goods or services that are subject to the standard rate of VAT.

Most foodstuffs, children's clothing and books will remain zero-rated and reduced rates will remain on items such as children's car seats and supplies of domestic fuel and power.

Some business groups have called on the government to delay the increase because of the recent cold weather, which hit retailers in the normally busy run-up to Christmas.

The report predicts that consumers will spend £22.5bn in the January sales, an increase of £360m on last year.

After this, however, the report estimates that consumers will spend an average of £324 less this year as a result of the tax. Shoppers in one store had mixed opinions about the rise.

However, Labour leader Ed Miliband called the planned rise the "wrong tax, at the wrong time". He said it would cost the average family £7.50 a week.

"Today we start to see the Tory-led agenda move from Downing Street to your street," Mr Miliband warned.

"The VAT rise is the most visible example of what we mean when we say the government is going too far and too fast, because it's clear that it will slow growth and hit jobs."

But Chancellor George Osborne said the VAT increase was necessary, as the coalition was dealing with Labour's "record debts". "VAT is a powerful weapon to tackle debt and will raise an extra £13bn in tax revenue," he said.

***The first tax that we studied is called a ‘specific tax’, because the amount of tax on every unit of output is the same (e.g. £2). Ad Valorem taxes (like VAT) are different, as they are a percentage of the price – so the higher the price of the good, the higher the tax (for instance - 20% of a £10 good is £2, but 20% of a £30 good is £6).***

***QUESTIONS - Use the article to answer the following questions:***

***How much has VAT risen from?***

***Why are sales expected to rise by 1.6% to £22.5bn in January before the VAT increase?***

***Which items are exempt from VAT?***

***How much less will the average family spend, as a result of the VAT increase?***

***How much does George Osbourne say the VAT increase will raise in tax revenue?***

**We have drawn the diagram for an indirect (specific) tax, in which each unit has the same amount of tax. Now try and draw the diagram for an ad valorem tax, in which the tax is worked out as a percentage of the price of the unit (like VAT).**