



**EMBARGOED UNTIL 00.01 TUESDAY 18 DECEMBER**

## RESEARCH NOTE 25 **THE TAX ON CHRISTMAS**

Christmas is a time of giving, but few families appreciate how much they are being forced to give to the taxman. Virtually all Christmas purchases, from iPhones to crackers, are subject to VAT, and granny's sherry attracts excise duty on top, not forgetting the fuel tax levied on journeys to see family and friends. New calculations by the TaxPayers' Alliance reveal the startling size of the family Christmas tax bill:

- This Christmas, **British families will pay an average £225 tax** on their festive spending, equal to 600 Tesco Finest mince pies as well as 15 bottles of Harvey's Bristol Cream sherry.
- The **total Christmas tax bill will come to £5.65 billion**, more than enough for the Treasury to buy every single turkey in the EU.

The table below shows tax charged on a few examples of Christmas staples:

**Table 1: Tax charged on examples of Christmas essentials**

<b>Item</b>	<b>Tax charged</b>
Apple iPhone (including 18-month mid-range service contract)	£161.00
Apple iPod Classic	£34.00
Nintendo Wii	£27.00
"Old Time" Santa suit	£21.00
Journey to see family (average 120 miles)	£10.40
Remy Martin cognac	£10.00
6ft Nordman xmas tree	£6.00
Harry Potter PS3 game	£6.00
Moet & Chandon champagne	£6.00
"Jack Frost" Crackers	£2.25
Santa beard and wig set	£2.25
Quality Street family tin	£1.40
"Passion Pack" mistletoe	£1.12

In fact, just about the only festive spending that escapes tax is the turkey and brussels sprouts. However, if European Commission plans to harmonise VAT<sup>1</sup> come into force, it could possibly spell the end for the current zero-rating of essential food – in effect, the prospect of a new EU turkey tax.

<sup>1</sup> EU Commission press release, 5 July 2007, downloadable here <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1017&format=HTML&aged=0&language=en&guiLanguage=en>

Mike Denham, former Treasury economist and author of the report, said:

*"While Santa Claus is coming down the chimney, Gordon Brown is sneaking through the back door and taking the presents from under the tree. People make enormous effort to make Christmas merry and bright, but the taxman refuses to join in the fun."*

## Sources and methodology

**The cost of Christmas:** According to Deloitte's long-running *Christmas Retail Survey*<sup>2</sup> the total cost of Christmas this year will be £33.6 billion. That works out at £1,340 per UK household, of which £336 will go on food and drink, £732 on gifts, and £272 on socialising.

**Tax:** The Christmas tax principally comprises VAT and excise duties. VAT is charged at 17.5 per cent on virtually all Christmas goods and services except basic foodstuffs and childrens' clothing. We estimate that only about £120 of the average £1,340 household spend will be non-chargeable, giving an average VAT bill of £182. That is a total VAT bill of £4.55 billion.

**Tax:** On excise duties, figures from the Office for National Statistics<sup>3</sup> show that spending on alcohol runs at about £12 billion in the final quarter of the year. We estimate that £6 billion of that is Christmas spending, and with the average effective duty rate on alcohol currently around 16 per cent, that implies a duty bill of £0.96 billion.

**Tax:** On fuel tax, a survey last year for Travelodge<sup>4</sup> showed almost 60 per cent of British adults travel to visit relatives between Christmas Eve and Boxing Day, with an average round-trip journey of 121 miles. That totals 3.3 billion miles, and since there are few trains running, most of it will be by car. Assuming an average 35 mpg (the overall fuel consumption of a mid-range Ford Mondeo), and an average 2 adults per car, the journeys will require 47 million gallons of fuel. And with fuel tax (duty plus VAT) now at £3 per gallon, that means a tax bill of £141 million.

**Tax:** The total estimated tax bill is therefore £5.65 billion, more than enough for the Treasury to buy every single one of the 340 million turkeys in the EU, or £225 per household, equal to 600 Tesco Finest mince pies as well as 15 bottles of Harvey's Bristol Cream sherry.<sup>5</sup>

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<sup>2</sup> Deloitte Christmas Retail Survey 2007, p.18, downloadable here

[http://www.deloitte.com/dtt/cda/doc/content/uk\\_cb\\_christmasretailreview\\_2007.pdf](http://www.deloitte.com/dtt/cda/doc/content/uk_cb_christmasretailreview_2007.pdf)

<sup>3</sup> Consumer Trends, No 45, Office for National Statistics, Table ALC.CN, downloadable here [http://www.statistics.gov.uk/downloads/theme\\_economy/CT2007Q2.pdf](http://www.statistics.gov.uk/downloads/theme_economy/CT2007Q2.pdf)

<sup>4</sup> Christmas travel survey, Dec 2006, Travelodge, downloadable here

<http://www.travelodge.co.uk/press/article.php?id=197>

<sup>5</sup> See [www.tesco.com](http://www.tesco.com) for the price of mince pies, sherry and turkeys, and

<http://uk.reuters.com/article/latestCrisis/idUKL2064584620070220> for the number of turkeys in the EU



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