Office for National Statistics

Article

VAT turnover implementation into National Accounts: June Update

Updates on the implementation of VAT within National Accounts by the end of 2017.

Table of contents

1 . Executive summary

We have committed to the implementation of VAT turnover data in our short-term output indicators by December 2017. The first use of VAT in the national accounts will be in the Quarterly National Accounts July to Sept 2017 and the Index of Services Oct 2017 bulletins, which are both due for publication on 22 December 2017.

A number of developments are being undertaken in order to facilitate this implementation schedule, including the creation of a new statistical processing platform. Work continues to refine our methodological treatment of the HM Revenue and Customs VAT returns to overcome the data challenges outlined in the previous article. A review of these methods will be published at the end of July 2017.

2 . Introduction

Previous articles in this series have provided information regarding the ongoing methodological, analytical and processing improvements required to make use of VAT turnover data as an economic output indicator.

This article provides a summary of the decisions taken so far regarding the use of the VAT turnover data and the principles established to inform those decisions.

This article also provides an overview of the proposed changes to the national accounts revisions policy, which will accommodate the use of VAT turnover data within the quarterly national accounts and the associated short-term output indicators.

3 . Implementation principles

The following is a summary of how VAT turnover data will be used in the national accounts. It sets out the principles that we have established and the consequent decisions taken during the implementation project.

Principle 1: VAT turnover data will be used to supplement Monthly Business Survey measured industries only

Special consideration of which industries, as defined in the Standard Industrial Classification 2007 (SIC 2007), will include VAT turnover data will be made once complete data become available from the new statistical processing platform.

A decision was taken to make use of VAT turnover data for industries where comparable survey data are already used in the national accounts, where we have already established the mutual concept of turnover as a proxy to output. The surveys that provide coverage of these industries are the Monthly Business Survey for UK production and Great Britain services (MBS), the Retail Sales Inquiry (RSI) and the Monthly Business Survey for Construction and Allied Trades.

Further selection decisions will be taken regarding the quality and suitability of the VAT turnover data. A number of selection criteria have been established and a supporting suite of analyses are being created to support this process.

One criterion evaluates the degree of comparability between VAT turnover data and other economic indicators, such as the monthly business surveys, reviewing the relative quality of our existing survey data and their sampling coverage of industries for the smaller employment size bands. Another criterion involves analysis of the revisions to VAT turnover data over time, resulting from any new information regarding business structures or updated returns data from HM Revenue and Customs (HMRC).

Principle 2: VAT turnover data will be used for selected employment size bands only

The VAT turnover data will be implemented in specific employment size bands within industries. These size bands are those constructed ranges of business employment-level specified by the sampling methodology for the relevant monthly surveys (such as the MBS, RSI and MBS for Construction), which try to establish equitable coverage of comparable business populations within industries.

Principle 3: Only relative changes of VAT turnover over time will be used

Analysis of VAT turnover data across industries shows the current price level to be different from both the MBS and Annual Business Survey (ABS) datasets.

Some conceptual differences exist in the measurement of turnover from the monthly business surveys and the HMRC VAT returns, which may explain some of the discrepancy. Analysis work is underway, which aims to improve understanding of the issue by comparing contemporaneous observations of turnover from businesses that feature in both the newly developed VAT turnover dataset and the business surveys data.

The use of this overall VAT turnover-derived level of turnover to inform output levels in the UK economy is not feasible until a better understanding of this discrepancy is established. Therefore, VAT turnover data will be used as an index of growth for each of the industries and the relevant employment size bands. The VAT turnover indices derived for each industry and employment size band combination will use the same methodology as that used for the monthly business surveys output data.

Principle 4: VAT turnover indices will be used on a quarterly frequency

VAT turnover data will be used to create a quarterly index of growth for the various industries and employment size bands. This follows from the identification of quarterly VAT returns being the dominant contributing frequency, making up around 90% of all returns and representing around 75% of all turnover received. The monthly path for the short-term output indicators will be benchmarked to these quarters to form an index that makes use of both data sources where appropriate.

Principle 5: Short term output indicators indices will be constrained to quarterly national accounts datasets

VAT turnover data will be implemented for sections of particular industries delimited according to the number of employees of the relevant statistical units.

Indices of growth will be derived from the VAT turnover data and used to supplement the short-term output indicators in the national accounts.

The short-term output indicators will be constrained to the relevant quarterly national accounts datasets. This requires making changes to the current revisions policy to maintain consistency between the outputs, which we are addressing by making changes described in section 4.

4 . Revisions policy changes

Changes to the national accounts revisions policy are being made to ensure that the short-term output indicators remain consistent with the quarterly national accounts once VAT turnover data have been implemented. This will ensure that the time series published for the production and construction industries will not receive two revisions in the same month, one being from the latest survey data and the second from the VAT turnover supplemented data used in the quarterly national accounts.

Where VAT turnover data are not available in subsequent monthly short-term statistics, survey data alone will be used to create month-on-month growths on the latest positions of the relevant output time series, until the next quarterly national accounts can inform the quarterly path for those periods.

Table 1: Summary of the proposed changes to the national accounts revisions policy, UK, 2017

Date	Publications	Data sources	Current revisions periods	New revisions periods (from December 2017)
8 December 2017	Index of Production (Oct 2017)	Survey data	Revisions open to January 2016	Closed back series
	Index of Construction (Oct 2017)			Only October 2017 data is provided
22 December 2017	Index of Services (Oct 2017)	Survey data and VAT data	Revisions open to January 2016	Revisions open to January 2016
	Quarterly National Accounts (July to Sept 2017)			
10 January 2018	Index of Production (Nov 2017)	Survey data and VAT data	October to November 2017 open to revision	October to November 2017 open to revision
	Index of Construction (Nov 2017)			Back series constrained to quarterly national accounts

Source: Office for National Statistics

The latest national accounts revisions policy documentation can be found in the [Revisions policies for economic statistic](#)s

5 . Next steps

The methodology for the statistical processing of the VAT turnover data is being tested alongside the technological development of the new statistical processing platform, as outlined in our [February 2017](#) article. We will be publishing an article providing an overview of this methodology at the end of July 2017. A subsequent article will share the results of analysis regarding the impacts of implementing VAT turnover data in our National Accounts statistics and will be published later in 2017.

6 . References

A number of publications relating to the topic of VAT turnover are also available:

- [Feasibility study into the use of HM Revenue and Customs turnover data within Short-term Output Indicators and National Accounts](#)

- [Exploitation of HM Revenue and Customs VAT data](#)

- [HMRC VAT update December 2015](#)

- [HM Revenue and Customs VAT update April 2016VAT update July 2016](#)

- [VAT turnover, initial research analysis, UK: Jan 2014 to Mar 2016](#)

- [VAT turnover, research analysis, UK: Jan 2014 to June 2016](#)