

# VAT on school fees – Frequently Asked Questions

## Introduction

The Labour Party has confirmed its intention to remove the VAT exemption from independent school fees if it is successful at the next UK General Election.

With a General Election likely in the next 12 months, there isn't yet any firm information on how this policy will be implemented. However, we are aware that independent schools are seeking to take some advice on what the potential impact might be on school fees and other educational activities.

This paper focuses on typical questions which have been raised by parents of children attending independent schools.

## Q1. What is the current VAT position of school fees?

UK VAT law currently exempts the provision of education by an “eligible body” (which includes a registered independent school) from VAT. Goods and services that are ‘closely related’ to education are also exempt from VAT.

Some examples of goods and services which are deemed to be ‘closely related’ to education are school meals for pupils, transport for pupils, school trips and boarding accommodation. Please note that this list is not exhaustive and supplies of other goods and/or services may be included.

## Q2. If a change to the VAT law is announced, how soon will it come into force?

If there is a change of government at the next general election (which has still to be announced), the new government could introduce legislation to change the definition of “eligible body” to remove independent schools. This might be part of the first Budget, or it could be introduced independently. As this relates to taxation there would be no input required from the House of Lords so if the measure receives a sufficient majority in the House of Commons it could be passed fairly quickly.

We would expect that the potential impact this measure would have on private schools, parents and the wider education sector will be considered in detail in advance of this.

## Q3. Will school fees have to rise as a result of the change?

The likely answer to this is, yes. If an organisation was required to become VAT registered due to the proposed changes in the VAT treatment for education fees and other ‘closely related’ income it would be required to account for and pay VAT to HMRC on the applicable income streams.

However, being VAT registered would allow schools to recover VAT on running costs and capital expenditure (which they cannot do at the moment). Our understanding is that, for most organisations, the VAT recoverable will be considerably less than the VAT that would have to be added to school fees (assuming the VAT rate will be 20%, which hasn't yet been confirmed).

Most schools would have scope to avoid passing on the full 20% increase in the overall cost to parents, but the likelihood is that a substantial increase of around 15% in fees will still be required (and this will be determined by the amount of VAT recoverable by each individual entity).

#### **Q4. Will the change affect other things parents pay for?**

As outlined above, the educational exemption also includes supplies closely related to education. There has been some discussion as to whether the combined “supplies” made by schools could be separated out such that the new VAT charge would apply only to the school fee element if other services being provided might benefit from other favourable VAT treatments.

For example, the supply of after-school care by a school could qualify as “welfare services”, which are exempt under a separate VAT exemption which, we understand, will not be changed under this policy. Other VAT exemptions apply to residential accommodation, which may still apply to boarding fees, and passenger transport services, which can be treated as zero rated. It remains to be seen whether splitting fees into these different categories will be allowed under new legislation; we’ll continue to monitor this.

#### **Q5. What’s the position with bursaries and discounts?**

If a bursary covers the total cost of a pupil’s education fees no VAT is likely to apply to the fee. Where third party bursaries fund part of the school fees, VAT is still likely to apply to the full fee amount.

Where school fees are discounted, under normal VAT rules, VAT would only be chargeable on the discounted amount paid.

#### **Q6. Would VAT on school fees still be charged to parents living overseas and on fees paid by grandparents or other third parties?**

Yes, as the service is being provided in this country to individuals, overseas parents would still have to pay VAT. Fees paid by grandparents and other third parties would also still be liable for VAT as the supply of education which is made to one person but paid for by another would still be treated as a supply to the actual recipient.

#### **Q7. What about fees that are paid in advance?**

There has been some discussion regarding whether this would be an opportunity for parents to pay in advance prior to the legislation coming into force.

VAT has tax point or “time of supply” rules which determine the point in which VAT would be due.

In most cases, VAT is due on a supply of services on the date the services are performed. The date can be brought forward if an invoice is issued or payment is received in advance, provided that at the time of making the payment or issuing the invoice, the services being paid for are precisely identified. However, where services are “continuous” in nature, tax is automatically due when a VAT invoice is issued or when payment received, whichever occurs first.

We have been advised to urge caution with this approach as previously where changes to VAT law have been introduced such as higher VAT rates, anti-forestalling legislation can be introduced which would bring any payments made in advance of the new law coming into force within the scope of VAT. Schools are currently considering how to approach prepayment schemes, but any scheme would come with a health warning that the early payments could be subject to VAT depending on the wording of the eventual legislation and we would recommend schools that any scheme ensures that the amounts paid are VAT exclusive.

#### **Extra questions and support**

Contact us via [vat@ct.me](mailto:vat@ct.me) or 0131 558 5800 and we’ll be happy to help.