



THE PRICE OF KNOWLEDGE JUST WENT UP: UNDERSTANDING VAT ON SCHOOL FEES

October 2024

HM Revenue & Customs (HMRC) has recently issued further guidance on the implementation of the government's plans to introduce VAT on tuition fees charged by private schools with effect from 1 January 2025.

There has been significant press coverage on the impact of those paying school fees. Outlined below are the salient points arising from the draft legislation and guidance issued to date from the point of view of schools having to charge VAT together with potential opportunities that arise as a result of this change in VAT treatment. Although we eagerly anticipate the imminent budget, we do not expect there to be significant changes to the VAT treatment of private schools as already announced.

Change in VAT treatment of fees

Currently the provision of education to school age children falls within one of the VAT exemptions whether that education is provided by the state sector or by a private school. As such, school tuition fees charged by private schools are not currently subject to VAT.

However, this is set to change and as of 1 January 2025, the provision of education by private schools will fall outside of the exemption. Therefore, their tuition fees will be subject to VAT at the standard rate of VAT which is currently 20%.

The additional 20% charge will obviously have a significant impact on those who presently pay private school fees and whether this will result in dwindling numbers of privately educated children is yet to be seen. Some private schools have been looking to absorb some of the additional VAT cost themselves rather than passing on to impacted parents, which will potentially have a significant impact on private school finances.

VAT will be applied to fees paid for education and vocational training and also for board and lodging. However, some other goods and services provided by schools which are closely related to the supply of education such as transport and school meals will remain exempt from VAT.

There is unlikely to be any scope to "value shift" in favour of making more income exempt from VAT as HMRC has already advised that any artificial values will be seen as aggressive tax avoidance and will be challenged.

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Prepayment of fees

HMRC has confirmed that any payments received on or after 29 July 2024 that relate to school terms starting on or after 1 January 2025 will be subject to VAT. Indeed, HMRC has also indicated that payments received before 29 July 2024 (for terms starting from 1 Jan 2025) may also fall subject to VAT depending on the exact arrangements in place with schools.

VAT registration

Schools who are already VAT registered will be familiar with apportioning VAT paid on costs and expenditure to work out how much VAT they are entitled to recover. For others this will be a new concept.

The good news is that as private schools will now be making far greater values of supplies that will be subject to VAT this in turn will allow greater recovery of VAT incurred on running costs.

Where schools are providing a mixture of taxable and exempt supplies, they will be what is known as partially exempt for VAT purposes. Whilst a school will be able to recover VAT directly relating to those taxable supplies, VAT that cannot be attributed directly to a supply needs to be apportioned and this can be quite complex. However, such schools will likely see recovery percentages on general overheads increase as a result of this change.

There are also special rules under the Capital Goods Scheme which allow the recovery of VAT on building and construction expenditure which can be adjusted over a 10 year period based on the use of the property. There may be scope for some schools to recover some VAT previously paid on construction projects. Similarly, schools planning new building projects should be in a position to recover more VAT than they were previously entitled to.

Any significant changes in VAT legislation can be difficult to navigate and we would always suggest specialist advice is taken for any private schools navigating their way through the VAT changes to ensure; the VAT treatment is correct for future supplies of goods and service, the date of VAT registration is correctly dealt with if not already registered and to ensure any prepayments received are correctly accounted for. The opportunities for VAT recovery on expenditure should also be explored by impacted schools.

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