

# Labour's proposal to add VAT to independent school fees - FAQs

## 1. If Labour win the election, how quickly will they implement VAT on school fees?

A date has not yet been set; however, as it is one of 6 measures in the Labour Party's 'First steps for change' document accompanying its manifesto, we expect the change to be introduced immediately after the election (should the Labour Party be successful). As such, VAT may be applied from as early as 5 July 2024. Although less likely, a new government could apply the change retrospectively from an even earlier date. If Labour do win the election and this change is introduced, we would hope an introduction is scheduled for the following school year instead to allow both schools and parents time to prepare.

## 2. If VAT is introduced to independent school fees, will it only apply to tuition fees?

The detail of how the Labour party intends to introduce and legislate for the proposed change is not yet known. As the VAT treatment of wraparound care clubs, boarding services and transportation are all found in different areas of VAT legislation, it is possible that VAT may only be applied to some of the elements noted.

## 3. Will pre-paying fees in advance of the introduction of any change ensure that VAT is not applied to these payments?

At this stage it is not clear how any change will be introduced (and legislated for) and what (if any) anti-avoidance or anti-forestalling legislation will apply. As a result, 'Fees in Advance' arrangements may not be effective and parents/carers could be asked to pay VAT in addition to any payments made in advance.

## 4. Can I pay fees from my limited company and reclaim the VAT?

It's very unlikely. In order to recover VAT incurred on expenses, a business must be able to directly link the VAT bearing expenditure to making taxable supplies. We cannot readily see how any business would be able to demonstrate a direct link between their child's education and their business activities.

## 5. Will schools have to put fees up by 20% and won't they be able to reclaim VAT on certain expenditure that they couldn't previously?

The level of fees charged is obviously a matter for each school to decide individually as each school's VAT position will be different. If VAT is introduced, independent school fees will have to pay 1/6th of the income from the activities (e.g. tuition and/or boarding, wrap around, transport etc) caught by any changes. The school should however be able to recover VAT incurred on associated expenditure and, as a result, affected schools may not need to pass on the whole 20% to parents/carers. The Institute for Fiscal Studies (IFS) have estimated the effective rate of VAT should on average be around 15% taking into account recovery of VAT incurred expenditure.

## 6. Is there anything a parent can do to minimise or help reduce the financial impact of VAT on school fees?

Consider paying in advance (where this option is offered); however, it should be noted that the effectiveness of such schemes is unlikely to be guaranteed by any school and, as such, the school may ask the parent to pay VAT in addition to any payments made in advance if HMRC find their scheme to be ineffective.

Parents and carers (especially those that are self-employed) are likely to benefit from reviewing their remuneration with a tax specialist. If, as we expect, the cost of VAT cannot be removed, it would be prudent for the parent/carer to take steps to minimise the tax paid on income used to pay for school fees. Remuneration planning should be undertaken with assistance of a tax or wealth management specialist.

### We are here to help

If you have any questions in relation to the possible introduction of VAT on school fees, please get in touch with [a member of our specialist team](#) or [your usual Azets advisor](#).