

Removal of VAT exemption for school fees (Lecture B1454 – 18.21 minutes)

Summary

The government has stated that about 94% of UK school children attend state funded schools. To ensure that every child has access to high-quality education, on 29 July 2024, the Chancellor announced that from 1 January 2025, the VAT exemption for private schools will no longer be available.

The VAT raised will be used to help fund:

- 3,000 new nurseries, helping parents back to work;
- breakfast clubs to all primary schools, so that no child starts school hungry;
- the recruitment of 6,500 new teachers and improve teacher and headteacher training.

Details of the government's plan are published in a technical note stating that from 1 January 2025, 20 per cent VAT will apply to education, vocational training and boarding services provided for consideration by private schools, or a closely associated body across the UK.

Historically

Education services, and closely related goods and services necessary for delivering education to pupils, that are supplied by an "eligible body" are VAT exempt (Sch. 9, Group 6 VATA 1994).

Currently, the term 'eligible body' includes private schools. Consequently, at present, no VAT is charged on private school fees, but such schools are not able to recover input tax suffered.

From 1 January 2025

The Chancellor has now confirmed that from 1 January 2025, all education services and vocational training supplied by a private school, or a "connected person", for consideration will be subject to VAT at the standard rate of 20%.

Pre-paid fees

Fees paid from 29 July 2024 relating to January 2025 terms onwards will be subject to VAT.

The government has stated that it will scrutinise schemes that were set up prior to 29 July 2024, where lump sum payments were made but with invoices failing to specify which terms' fees the payment related to.

Connected person

The legislation will ensure that private schools are not able to contract out certain supplies to "connected persons" who are themselves eligible bodies, entitled to exemption.

Provision of education or vocational training by such bodies will be treated as provision by the private school.

This will apply where the private school and connected person are:

- closely bound to each other by financial, economic and organisational links; or
- connected within the meaning of s.1122 CTA 2010 (connected persons);

The same treatment will apply where there are arrangements in place, where the main purpose, or one of the main purposes, is to secure treatment as an exempt educational supply.

State sector unable to meet educational needs

Where a pupil's needs cannot be met in the state sector and they are placed in a private school, standard rate VAT will still apply.

However, where these places are funded by their Local Authority, a devolved government, or a non-departmental public body, the funder will be able to recover the VAT incurred.

Nurseries

The government intends that both standalone nurseries and those attached to a private school will remain exempt.

VAT will become chargeable on children's school fees in the first year of primary school in a private school onwards, often referred to as:

- "reception" in England and Wales;
- "Primary 1" in Scotland; and
- "Year 1" in Northern Ireland.

Sixth form and further education

Education and boarding provided by state schools (including academies) are not affected by the policy change, and so will continue to be exempt from VAT. Such entities will continue to be "eligible bodies".

Education and vocational training provided by further education colleges, which are classified as public sector institutions, will not be subject to VAT.

However, education and vocational training provided either at sixth forms attached to private schools or standalone private sixth form colleges will be subject to VAT.

Private tutors

The VAT treatment where a tutor teaches a subject that is ordinarily taught in schools will remain VAT exempt

Other goods and services "closely related" to education

Boarding services, which are closely related to the provision of private education, will be subject to VAT at 20%.

VAT will need to be charged on any additional supplies of education that they charge a fee for after school hours or during holidays. This will include extra-curricular performing arts classes and sports lessons.

However, other goods and services that are provided by a private school for the direct use of their pupils and which are necessary for delivering their education will remain exempt from VAT.

Any services classed as welfare services, where childcare is provided but with no education, will remain VAT exempt. This will include:

- before/after school childcare;
- childcare-based holiday clubs.

Invited comments

The government has invited comments to ensure that:

- all relevant private schools across the UK care captured;
- the “connected persons” test captures only relevant relationships existing between private schools and third parties

Private schools not currently VAT registered

Such schools must register with HMRC with effect from 1 January 2025 and will be able to do so from 30 October, Budget Day.

HMRC will be publishing further guidance on registering, ahead of the 30 October deadline.

Recovering input VAT

From 1 January 2025, private schools will be able to recover input VAT on their related goods and services.

Where a private school also provides exempt supplies, such as welfare services, it will become a partially exempt business and may need to perform a partial exemption calculation to calculate how much input VAT can be recovered. HMRC will be providing specific guidance for schools on how a partial exemption calculation will need to be performed.

Removal of charitable rates' relief

Many private schools in England are registered charities and therefore benefit from charitable rates relief.

This means that a minimum of 80% relief is available against business rates, with Local Authority's able to provide a further 20% relief at their discretion.

This relief is being withdrawn for private schools. However, the government has acknowledged that some pupils have special educational needs that can only be met in a private school and is considering how to address this issue.

This change will be legislated for through a Local Government Finance Bill, to be introduced following the Budget, to take effect from April 2025, subject to Parliamentary process.

<https://www.gov.uk/government/publications/vat-on-private-school-fees-removing-the-charitable-rates-relief-for-private-schools>

<https://www.gov.uk/government/publications/revenue-and-customs-brief-8-2024-removal-of-vat-exemption-for-private-school-fees-and-boarding-fees>