Online debate: Should VAT be charged on private school fees?

Briefings



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Labour's plans to charge VAT on private school fees will affect smaller, specialist schools as well as prestigious institutions such as Eton, said speakers at an online debate hosted by CIOT and the Institute for Fiscal Studies.

The event on Monday 15 April was chaired by **Charlotte Barbour**, Deputy President of the CIOT, and featured speakers: **Stuart Adam**, Senior Research Economist at the Institute for Fiscal Studies; **Sam Freedman**, Senior Fellow at the Institute for Government and Senior Adviser to Ark Schools; **Julie Robinson**, Chief Executive of the Independent Schools Council; and **Kerry Sykes**, Director of Big for Tax and Technical Adviser to the Charity Tax Group.

Speaking first, Kerry Sykes explained the VAT rules that apply to education are quite 'nuanced'. You have to be an 'eligible body' to benefit from the VAT exemption, which includes schools and colleges but not CPD providers or secretarial colleges, for example. Private tuition is exempt provided it's a subject ordinarily taught in school,

while nursery fees are exempt, but only as they are deemed to be the provision of care, not for educational reasons.

Stuart Adam said Labour's proposals could raise more than £1 billion, which is 'not negligible' but is also 'not going to be transformative revenue for the state system'. He argued that private education could be seen as an investment, generating higher earnings which get taxed in turn. He also acknowledged the counter-arguments around whether private schools have wider costs to the public purse, such as poaching the best teachers or creating higher-paid jobs only at others' expense.

Sam Freedman backed putting VAT on school fees, saying that private school is a 'luxury good', with most benefits 'social and personal' rather than educational. The countries around the world which have the most successful education systems are not heavy users of private schools, he added. Sam noted that New Zealand already charges a similar levy – a goods and services tax – on private school fees at 15% and it hasn't changed the take-up of pupil places much.

Julie Robinson said that people should beware of believing the stereotype about private schools, based on ancient, prestigious institutions such as Eton. More than half have fewer than 150 pupils, a third have opened since 2010 and only eight are exclusively boarding, she said. She was concerned about what Labour's policy would mean for smaller specialist schools, which won't have the capacity to cut running costs by a fifth. It will mean cutting staff, she said, and we can't assume those staff will move into the state sector.

The speakers agreed that the state sector can mostly absorb additional pupils who may move from private schools in coming years in response to the plans. Asked whether private education is 'better' than state, Sam said that parents with children at private schools are often buying a better 'experience' in terms of facilities and networking, rather than a better education per se.

Kerry said that if you were simplifying the VAT system, you would probably remove many of the exemptions, but he didn't think it followed that putting VAT on school fees should lead to VAT on university fees. The key difference is that there isn't a free alternative to university, and tuition fees are basically dictated by the government, he said.

Watch the full debate at: www.presenta.co.uk/CIOT/IFS/150424