Private school fees: The implications of new legislation for VAT

Indirect Tax



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We consider the new legislation about VAT being charged on private school fees from 1 January 2025 and how this will have wider implications than many advisers realise.

Key Points

What is the issue?

Private school fees and boarding charges will be subject to 20% VAT from 1 January 2025. This means that most schools will register for VAT for the first time and submit quarterly returns.

What does it mean for me?

Many other supplies made by schools will continue to be exempt from VAT. Each source of income needs to be considered separately to establish the correct liability. Organisations that hire facilities at schools will be charged VAT in many cases, so will also need to prepare for increased costs.

What can I take away?

Private schools will be partially exempt as far as input tax is concerned so must allocate their expenses between the usual three categories that apply for any partially exempt business. The article considers these categories and gives examples of how they will work in practice.

What changes are taking place on 1 January 2025?

Fees charged by private schools to their pupils are currently exempt from VAT under Value Added Tax Act (VATA) 1994 Sch 9 Group 6. The exemption also extends to ‘closely related goods and services’ supplied with education. From 1 January 2025, school fees and boarding charges will be standard rated. This is a massive change and means that most private schools will register for VAT for the first time because their taxable sales will exceed the annual registration sales threshold of £90,000.

The legislation will apply to the schooling of children who come within the UK’s compulsory school ages, so nursery classes provided at private schools will not be affected. However, private sixth form colleges are also captured if they provide full-time education to pupils under 19. If a pupil is receiving funding due to special needs which state schools cannot handle, their funder ‘will be compensated for the VAT they incur’, which is good news for charitable organisations that aid children with special needs.

Note: The compulsory school age is five to 16 in England, Scotland and Wales and four to 16 in Northern Ireland.

Can schools register for VAT before 1 January 2025?

Yes. Schools with some taxable sales can register for VAT straight away on a voluntary basis. Those with no taxable sales can register from 30 October 2024 as an intending trader; i.e. an intention to make taxable sales from 1 January 2025. The October date will avoid the mass rush of schools seeking a date of 1 January 2025 – past history shows that HMRC does not cope well with a sudden influx of registrations caused by a change in the law.

The disadvantage of registering before 1 January 2025 is that output tax will be payable on sundry income received by the school during the extra months, although there will be some opportunity to claim more input tax.

Can schools issue invoices or receive payments before 1 January so that fees will still be exempt?

No. As expected, there is anti-forestalling legislation applying to payments after 28 July 2024 included in the law change, which prevents a school from creating a tax point before 1 January 2025 to avoid VAT in relation to school fees and boarding charges for terms starting on or after this date. This seems reasonable, otherwise there would be a big advantage for parents who can afford to pay a lump sum in advance for their child's education.

To cut to the chase, if an advance payment or invoice for school fees and boarding charges relates to actual supplies of education made by a school from 1 January 2025 and later, they will be subject to VAT. End of story.

What about other fees charged by schools? Will they be subject to VAT?

Supplies of 'closely related goods and services' linked to education will continue to be exempt; e.g. school meals, stationery, books and transport. The supplies must be for the direct use of pupils and necessary for delivering their education.

As well as charging VAT on the main school fees and boarding charges, private schools must also charge VAT on additional education provided to pupils, as well as fees for out of hours activities and school holiday clubs. Vocational training supplied by private schools will also be subject to VAT, defined as 'all training, retraining or

work experience or volunteer work in some cases’.

The good news is that any fees that relate to before and after school childcare will be exempt because these supplies relate to a ‘welfare service’ (see VATA 1994 Sch 9 Group 7).

What are the implications for businesses and organisations that hire facilities at schools?

I had a question recently about a local swimming club that hires the pool at a private school on a weekly basis throughout the year. The treasurer asked if they will be charged VAT on their hire fees after 1 January 2025. The initial answer to this question is ‘yes’. The hire of sporting facilities is standard rated by virtue of VATA 1994 Sch 9 Group 1 item (m) but if a club or association lets the facilities regularly, they can still be exempt from VAT. See ***Private school: income from hiring out swimming pool***.

The challenge for schools will be to review each source of income they receive and establish the VAT liability in each case. For example, the hiring out of rooms for meetings will usually be exempt from VAT as a land supply but providing catering services for a party will be standard rated.

Private school: income from hiring out swimming pool

Harowton School hires out its swimming pool on a weekly basis to two entities:

- a local swimming club, organised by volunteers; and
- a commercial business that gives swimming lessons to adults.

The hiring out of sporting facilities, including swimming pools, is subject to VAT but there is scope for the fees paid by the swimming club to be exempt from VAT under the ‘series of lets’ rules; i.e. they must hire the pool for a minimum of ten lets at intervals of between one and 14 days (see VAT Notice 742 s 5). However, all hirings to a commercial business will be standard rated.

What about input tax claims?

The commercial reality is that most, if not all, schools will have both taxable and exempt sales after 1 January 2025 so will need to get to grips with the complexities of partial exemption. They will need to allocate all expenses into one of three categories:

- directly relate to taxable sales: all input tax can be claimed, subject to usual rules;
- directly relate to exempt sales: no input tax can be claimed; and
- mixed costs and general overheads: some input tax can be claimed, based on the standard method of partial exemption based on income splits between taxable and exempt sales.

See ***Private school: stationery purchases and accountancy fees.***

A decision for schools and their advisers will be to consider if a partial exemption special method might be worthwhile, which is any method other than the standard method. A special method will be appropriate if the standard method 'breaks down'; i.e. it gives a distortive result in terms of input tax recovery.

The adoption of a special method requires HMRC's agreement and certification by the applicant that it gives a fair and reasonable result.

Private school: stationery purchases and accountancy fees

Harowton School purchased stationery in January 2025, which will only be used by pupils for the spring term. As the school fees will be taxable for this term, the school can claim input tax on these goods on its first return. The expenditure wholly relates to taxable supplies, so there is no partial exemption restriction.

Arvil Accountants produced a business plan in February 2025 about a proposed extension to the school's gymnasium. However, the gym is used for both taxable and exempt supplies, so the input tax claimed will be apportioned according to the school's relevant partial exemption method.

What about pre-registration expenses and also the capital goods scheme?

Let’s assume that a school will register for VAT on 1 January 2025. There will be scope to claim some input tax on its first VAT return on pre-registration expenses:

- **Goods:** Stock or assets must still be owned on the date of registration and have been purchased by the school within the last four years.
- **Services:** Only services purchased in the six month period before registration will be eligible for a potential claim.

However, according to HMRC’s VAT Input Tax manual VIT32000, input tax can only be claimed on these expenses to the extent that, at the time the tax was *incurred*, the relevant goods and services were used, or intended to be used, to make taxable supplies. In reality, most of the expenditure will have been purchased at a time when schools made *exempt* rather than taxable sales, and the expenditure is therefore linked to these supplies.

To quote from the manual: ‘The amount of tax that can be recovered is the amount that would have been deductible had the business been registered at the time the tax was incurred.’ However, HMRC has confirmed that it will include details about pre-registration input tax in guidance that will soon be issued for schools, so it might use the discretionary powers under Reg 111 of Value Added Tax Regulations 1995 SI 1995/2518 to allow a partial claim on these expenses.

The capital goods scheme should be considered by all schools. There may be scope to claim some input tax with the annual adjustments that are made over ten years for land and building projects costing at least £250,000 excluding VAT; and over five years for computer expenditure exceeding £50,000 excluding VAT. The main opportunity for an input tax windfall is likely to relate to building projects, so the starting point is for a school to identify projects in the last ten years where a potential claim could be made.

Will schools increase their prices by 20% or absorb some of the VAT?

Some schools have hinted that they will be able to absorb all of the extra tax charge and not increase fees charged to parents but this seems very unlikely. The Treasury has commented that schools can ‘take steps to minimise fee increases’ –

presumably because of the opportunity to claim input tax – but this is unlikely to be more than 5%.

Many schools have identified opportunities to increase their revenue – for example, by increasing the hiring of facilities to external users – and some intend to transform themselves into wedding venues. The priority is for schools to use the time between now and 1 January to get ready for their dramatic entry into the shark-infested waters of the nation’s favourite tax. As the pundits say… if you fail to plan, you plan to fail.

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