

VAT on private school fees: the increasing cost of education

How new tax rules are reshaping family finances and long-term planning

From 1 January 2025, private schools across the UK were required to apply 20% VAT to tuition and boarding fees. The change represents a significant shift in education funding and has placed substantial financial pressure on families with children in independent schools.

Not every cost is affected. Meals, textbooks, and transport remain VAT-exempt, though these constitute only a small part of total school expenses. The most significant impact is on tuition itself, which now bears a direct 20% surcharge.

ANTI-FORESTALLING RULES AND LOST RELIEFS

Parents who hoped to pre-pay future fees before VAT came into effect found their plans hindered. Anti-forestalling measures introduced in July 2024 meant that any fees invoiced or paid after 29 July for education delivered in 2025 or later were automatically subject to VAT.

A further change occurred in April 2025, when private schools in England with charitable status lost their 80% business rates relief. This shift imposed extra financial pressure on many institutions that were already coping with higher operating costs.

Financial impact on families

According to the Institute for Fiscal Studies data, the typical pre-VAT annual fees schools charged were around £18,450 for day pupils and £37,750 for boarders. With the introduction of VAT, these have increased to approximately £22,140 and £45,300 respectively^[1].

For children with Special Educational Needs and Disabilities (SEND) who have an Education, Health and Care Plan that names an independent school, local authorities receive VAT refunds from the Department for Education. However, families of other pupils with SEND do not qualify for this relief.

SECTOR RESPONSE AND LEGAL OUTCOME

Some schools have decided to absorb part of the cost to support long-standing families, while others

have passed on the full increase; however, smaller and specialist schools face particular difficulties in adjusting to the combined effects of VAT and business rate changes.

Research data shows that out of 2,000 high-net-worth parents, 17% have borrowed against their homes to cover higher fees, 14% have downsized, and 20% have paused pension contributions^[2]. Nearly a quarter have taken on extra work or sought higher-paying roles to meet rising costs.

PLANNING STRATEGIES FOR SCHOOL FEES

For those looking to manage these expenses, structured financial planning has become crucial. Some families are turning to trusts or gifting arrangements to reduce the burden.

- Education trusts enable grandparents to fund their grandchildren's schooling while maintaining control over when and how the funds are used.
- Bare trusts grant children full entitlement at 18 (or 16 in Scotland), often allowing them to take advantage of their personal allowances.
- Gifting out of surplus income can be exempt from Inheritance Tax (IHT) if regular and properly documented.

Others may consider reviewing pensions and mortgages to release short-term cash flow, though this must be balanced against long-term retirement goals.

MAKING USE OF GOVERNMENT SCHEMES

For parents of younger children, free childcare entitlements remain a vital support. From September

2025, the 30-hour scheme will be extended to cover eligible working parents of children from nine months old, potentially saving up to £7,500 annually per child.

Families earning near the £100,000 income threshold should review their pension contributions to remain eligible, as surpassing the limit will forfeit the full entitlement.

WHY CASH-FLOW PLANNING MATTERS MORE THAN EVER

The introduction of VAT on private school fees has not only altered the cost of education but also impacted how families manage their finances. The question is not just whether parents can afford the fees now, but also how ongoing increases could influence their long-term savings, retirement plans, and homeownership ambitions.

TAX-EFFICIENT WAYS GRANDPARENTS CAN HELP

Grandparents have several practical options for helping to fund a grandchild's private school fees while considering tax implications. Regular gifts made from surplus income are often exempt from IHT, provided you can prove they don't affect your standard of living and you keep detailed records.

Alternatively, grandparents can use their annual £3,000 IHT exemption. For larger sums, a potentially exempt transfer allows a significant gift, which becomes completely IHT-free if you survive for seven years. Another option is to pay the school directly, although this is still regarded as a gift to the child's parents for IHT purposes. Long-term planning might include contributing up to the annual limit into a Junior ISA, ensuring tax-efficient growth.

TRUST IN YOUR GRANDCHILD'S FUTURE

For greater control, trusts are a helpful tool. As mentioned previously, a bare trust holds assets in the child's name, giving them access at age 18, while a discretionary trust offers more flexibility for the trustees to manage funds. Each has different tax implications, including potential Capital Gains Tax on setting up the trust and specific IHT rules.

It's important to understand regulations like the 'gift with reservation' rules, which state that you cannot benefit from an asset you have gifted. Because of the complexities in tax and inheritance law, it is vital to obtain professional financial advice to ensure your support is structured most effectively for your family's circumstances. ■

NEED ADVICE ON MANAGING THE INCREASING COSTS OF PRIVATE EDUCATION?

With VAT now included in private school fees, effective cash-flow management and early financial planning can help protect long-term goals while maintaining access to independent education. Whether you are a parent or grandparent, to learn more or discuss your concerns, please contact us.

Source data:

[1] Institute for Fiscal Studies - IFS Report R263 - Tax, private school fees and state school spending

[2] Saltus – Saltus Wealth Index: February 2025;
<https://www.saltus.co.uk/insights/saltus-wealth-index-february-2025>

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