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Dear Parent,

VAT on Fees – Follow Up

Further to the letter from the Headmaster sent to parents on 13 June in regard to the potential for VAT on fees, this follow-up letter hopes to answer some specific queries (FAQs) asked by our parents.

In general terms, the School is doing everything within our financial constraints to investigate and explore ways to minimise the effects on parents should VAT be imposed on fees. To restate the Headmaster's comments however – until there is a Labour Government, **and** there is **full clarity** on the details of any imposition of VAT on fees, then the School **cannot** answer any queries definitively and can only answer based on what the advice to us is **now**.

Neither is the School a Financial Adviser to parents or a VAT consultant – the issue of VAT is a very complex area – hence the number of VAT consultants there are – and the School cannot be held liable for passing on the advice we have been given at this point until the rules have been clearly established – because any advice we have been given will have been given by someone more versed in VAT than we are, but who doesn't know the potential future VAT position any more than we do.

Parents must take their own independent financial/tax advice and should not rely on this document and should note that Professional advisors will be extremely reluctant to provide guidance *before* the passage of the legislation necessary to introduce VAT on school fees.

The following document is, by necessity, lengthy in order to cover the full range of queries parents may have but we hope that this serves its purpose to inform you on the VAT issues facing the School and you as parents.

These disclaimers made, below is our understanding of the detailed VAT position as we know it at this point.

Our working assumptions are as follows:

- Labour will win the election with a good working majority (at least).
- They will introduce VAT on school fees as an early priority.
- Retrospective legislation to backdate the imposition of VAT on fees to a point earlier than the announcement of specific, targeted anti-forestalling measures is unlikely.
- The announcement of anti-forestalling measures will not be earlier than the date of the General Election but is more usually the date of the Budget announcement, but could be any time between those two dates.



1. **Query:** Why is VAT not currently payable?

Comment: Currently, Independent school fees are exempt from VAT under Item 1, Group 6 of Schedule 9 of the VAT Act 1994 as supplies of education made by an ‘eligible body’ – in this context a body precluded from distributing profits and applying profits to the continuance of supplies of education.

2. **Query:** How will VAT on fees work?

Comment: As a **consumer** tax, Vat at 20% will be applied to the fee set by the School. It is only by *reducing* the headline fee tariff that a school can alter the fee effect on parents. Therefore, if a school keeps its fee tariff at its current level – and do not forget the need for an annual increase required to keep pace with the inflation affecting the Schools operation – then parents would see a 20% + inflation increase to their school fees. Alternatively, to fully eliminate any increase in fees paid by the parent brought about by the imposition of VAT – a School would have to drop its headline fees (and therefore income) by 20%. Note: see later FAQ 5 which notes a school’s ability to reclaim some VAT which will reduce the effects of VAT. In the case of general discount on fees (sibling remission, Scholarship etc) VAT would only be chargeable on the discounted ie Net amount paid.

3. **Query:** When will VAT be imposed on fees?

Comment: We understand that the key question for parents is at what point VAT will become payable on fees? No one can answer this question with any certainty. However, it is usual for the Treasury to give some reasonable period for adjustments when introducing significant tax changes. The educational associations representing Independent Schools will clearly argue for as substantial a period as possible given the likely impact of this policy on families and schools. If VAT is to be imposed, it *might* be imposed as early as September 2024, but April *might* be an option (to ‘fit in’ with the tax year) or, indeed, the date *might* be Aug/Sept 2025 to be imposed at the start of that academic year. At this stage, it would be unwise to commit ourselves to any specific date of implementation. We encourage parents to plan for all eventualities including an unreasonably early implementation, which could be subject to legal challenges. However, as part of a central planning scenario, we do feel it is reasonable to model VAT on fees starting from April 2025 which *may* be a realistic prospect. Equally, given the strength of messaging behind Labour's policy proposals, there is a risk that in a worst-case scenario, implementation could take place as early as September 2024 and this should be modelled as the worst-case scenario.

4. **Query:** How soon could VAT be imposed?

Comment: Theoretically, a new Labour government could pass a law at a time of its own choosing to change the definition of “eligible body” to omit independent schools. This might be part of a new government’s budget, or it could be introduced independently of that. As the matter would relate to taxation (a so-called “money bill”) the House of Commons would have “financial privilege”, meaning that, provided certain conditions are met, the House of Lords would have no ability to oppose it.

5. **Query:** How would a VAT charge affect the level of school fees?

Comment: Like any other business which makes VAT taxable supplies, if a school were obliged to charge VAT on the supplies it makes, it would in turn be able to set-off the amount of VAT which the school has itself paid on goods and services supplied to it and which have been incurred for the purposes of the business (for example utility bills, repairs and maintenance costs or professionals’ fees). In addition, the VAT charged on capital expenditure (eg on new buildings or other major projects), may also be recoverable, including on projects completed before the



change in VAT status. For these “VAT recovery” reasons, schools are unlikely to need to pass on the full 20% increase in the overall cost to parents and should be able to reduce the VAT exclusive fee somewhat before the VAT charge is added (the current Sector estimate concludes, that for **most** Schools, the VAT ‘reclaim element’ will amount to c5% of fee Income and will allow most Schools to reduce their headline fee by c5% which will result in a maximum net increase to fees of c15% rather than the full 20%). **The full and final figures cannot be guaranteed until impact of any new VAT rules can be studied and quantified.** Strathallan has conducted a review of its current expenditure profile, and – under **current** VAT rules, we can confirm that our ability to reclaim Input VAT is of this order were this to have been applied to our expenditure for the 2023/24 academic year.

6. **Query:** Will the full VAT be added to school fees or is Strathallan anticipating absorbing some of this?

Comment: see Query 5 above. As the School is likely to be able to reclaim some input VAT, it is extremely unlikely that the net effect on fees by the imposition of VAT will be a 20% increase. Sector guidance suggests that for most schools, the *maximum* net fee increase will be c15%. Some schools may try and absorb further VAT increase costs to assist parents further – but until the actual future VAT rules are in place and quantified, it would be extremely unwise for *any* school to commit to any future ‘cost share’ even though all schools would morally wish to assist parents through this difficult time. But parents should also note the need for all schools to consider the need for an annual increase required to keep pace with the inflation affecting each schools operation – this would need to be applied as well.

7. **Query:** Would VAT need to be charged on the full amount of the school fees? I.e. to Boarding as well as tuition fees?

Comment: There has been some discussion among tax professionals as to whether the aggregated “supplies” made by schools could be separated out such that the new VAT charge would apply only to certain elements. For example, the supply of after-school care by a school *might* qualify as “welfare services”, which are exempt under *existing* VAT law. Similarly, accommodation of the type provided to children who board at school *might* also, on its own, be treated as VAT-exempt, and transport services *can* be zero rated. Whether such a disaggregation would be possible will depend on what the new law says and what the legislators’ stated intentions are. It will depend upon whether the school is seen to be making a single supply of education services for VAT purposes, with the provision of accommodation being an ancillary supply to the education and following the same VAT liability. If the school is deemed to be making two separate and distinct supplies of education and boarding for VAT purposes, each would be taxed accordingly. At this stage this is impossible to predict – **but we are being advised that boarding fees are extremely likely to be subject to VAT going forward** as they will be deemed associated services and will not be disaggregated from the educational element of the fees. **We would certainly advise parents of boarders to consider the worst-case scenario that VAT will be applied to the full fee.**

8. **Query:** Will there be any exemptions?

Comment: The expectation is that VAT will be applied to education of children from 5-18, although this has yet to be confirmed. We therefore expect the following to be exempted from Labour’s plans to impose VAT: Special Schools and Nursery Provision & Pre-School.

9. **Query:** Would schools need to change the terms of their terms and conditions / parent contract?

Comment: Our current Parent Contract includes wording stating that our fees are exclusive of any taxes.



10. **Query:** Would VAT be charged to parents who are based overseas?

Comment: Yes. The general rule for supplies of services which are made by a business to a consumer is that the place of supply is where the supplier belongs, irrespective of the location of their customer.

11. **Query:** Would VAT still be charged where the fees are settled by a third party, eg a grandparent or a trust?

Comment: Yes. The supply of education which is made to one person but paid for by another would still be treated as a supply to the actual recipient.

12. **Query:** What about fees that are paid in advance?

Comment: In most cases, VAT is due on a supply of services on the date the services are performed. However, where services are continual (as they would be with the supply of education) tax is due when a VAT invoice is issued or when payment received, whichever occurs first. Consequently, where fees have been paid “up front” and prior to a change in the law, in principle VAT would not be due on these sums paid. However, **it is important to note that any new law imposing VAT may be made effective from the date the change is announced, rather than from the later date the law is actually passed (using so-called “anti-forestalling” legislation).**

13. **Query:** What are anti-forestalling measures and why are they important?

Comment: Much has been discussed in the press in relation to FIA but as very little detail is available at present it must, therefore, be for the parent to seek advice and make their own decisions. There is a mechanism called ‘anti-forestalling’ which prevents fee payments being made early when a tax regime is about to change. In the case of VAT on fees any anti-forestalling measures could run from as early as 5 July until the Budget that contains the VAT on school fees measure. We are advised that the announcement of anti-forestalling measures will not be earlier than the date of the General Election but is more usually the date of the Budget announcement however, it could be any time between those two dates. As a reminder to those parents who would and could consider taking advantage of the Strathallan School FIA scheme, payments under this scheme would need to be received at our bank on or before 4 July 2024. However, even if a parent made payment of FIA after 4 July, this is not to say that their FIA would not provide potential protection against VAT imposed on fees – it will be dependent on the date of an announcement of VAT changes – which would trigger any anti-forestalling measures – so as long as a payment of FIA is made in advance of such an announcement, and there is no retrospective element to the new VAT legislation – then such FIA is likely to provide insulation against the application of VAT.

14. **Query:** What is the risk of retrospective VAT being imposed if we are invoiced before the 4th July?

Comment: we don’t know.

15. **Query:** if we are invoiced before 4th July, when would payment need to be completed?

Comment: See Query 13.



16. **Query:** If I was to enter into a FIA arrangement, how will the School treat our current Scholarship remission?

Comment: in any FIA arrangement, whether this attracts any additional discount (for FIA for 3 'pupil years' or more) or not, the School will continue to apply any Policy or Scholarship remission. VAT would only be chargeable on the discounted amount paid.

17. **Query:** What will happen to those on Bursary support should VAT be imposed on fees?

Comment: Parents of those pupils currently in the School with means-tested bursary support will be keenly aware of the statements made in the press from Sector bodies and other schools to note that the imposition of VAT on fees will have the potential of hugely affecting those on such support, and that some schools will simply not be able to afford to continue to fund their current levels of bursary support. VAT would only be chargeable on the discounted amount paid. We will be writing in due course to all parents in receipt of bursary support to detail our position once we are in a position to do so. Strathallan's ability to continue to fund our extensive means-tested support will be hugely dependent on the wider effects of any VAT imposition on our financial situation, and until this is clear, then it is impossible for us to give any definitive statement. Our clear focus, however, will be to try and support – as a priority – those pupils in exam years. **We cannot, at this time, guarantee to be able to continue to support all families in support of means-tested bursaries** or to absorb the full effects of VAT in their specific fee cases, but we will, of course, wish to do all we can within our available resources. We will, however, continue to work closely with parents to try and navigate a route through this situation such that we all try our best to get the pupil through their immediate course of study. If this issue affects you, then please await our letter to you which will provide more detail.

Yours sincerely,

Anthony C Glasgow
Bursar