

Buzzacott

VAT on Private Schools Fees Webinar

Socrates Socratous & Kam Chauhan

Agenda

1. Introduction and housekeeping
2. Overview of new rules and VAT legislation
3. VAT Basics
4. VAT recovery of costs and partial exemption
5. Areas of difficulty and opportunities

Introduction and housekeeping



How to ask questions



Recording of webinar



Q&A

Overview of new rules and VAT legislation

Overview of new rules - Who is affected?

- Private Schools, independent schools and further education/sixth form colleges that provide full time education to pupils of compulsory school
- 16- to 19-year-olds, where institution wholly/mainly concerned with education for that age group
- Includes Non-maintained special needs schools that receive funding on a per pupil basis. Block grant funding is outside the scope of VAT
- VAT must be charged for all fees for terms starting on or after January 2025.
- Affected Schools will need to register for VAT before they are able to charge and account for VAT on their fees and certain other income (further details later)

VAT legislation changes

The current exemption for Private School fees is to be removed by the introduction of exceptions to VATA 1994, Sch. 9, Grp. 6 for the provision of:

- education by a private school, other than in a nursery class;
- vocational training by a private school; and
- board and lodging which is closely related to either of those.

The changes will be implemented from 1 January 2025 with anti-forestalling measures to ensure that any advance payments made after 29 July 2024 (covering periods after 1 January 2025) will be subject to VAT.

VAT legislation changes

What is a “Private School”?

A ‘private school’ is defined as an institution which is either:

(a) a school —

(i) at which full-time education is provided for pupils of compulsory school age or, in Scotland, school age (whether or not such education is also provided for pupils under or over that age),

(ii) where fees or other consideration are payable for that provision of full-time education, and

(iii) which is not a nursery school, or....

VAT legislation changes

What is a “Private School” continued?

(b) an institution —

(i) which is wholly or mainly concerned with providing education suitable to the requirements of persons over compulsory school age (or, in Scotland, school age) but under 19,

(ii) at which full-time education is provided for such persons,

(iii) where the provision of full-time education falling within sub-paragraph (ii) is wholly or mainly provision in respect of which fees or other consideration are payable, and

(iv) which is not an independent training or learning provider. A connected person will be treated as a private school for this legislation.

Exclusions

- Providers of EFL – Continue to be exempt
- Nurseries – Continue to be exempt, wholly/almost wholly – 90%
- HE taught at schools otherwise caught will be carved out. E.g. performing arts schools
- FE Colleges – where concerned with education not wholly or mainly for 16-19 yr old – at least 51% of pupils aged 16-19 for a fee
- Independent Training Providers and Independent Learning providers

Date of registration – this will depend on:



the value of school fee payments you receive for terms starting on or after 1 January 2025



the date you receive the payments



If you receive advance payments, you may have to register before 1 January 2025

Date of registration

If you register because you have exceeded the £90,000 VAT threshold in the previous 12 months, you must register within 30 days of the end of the month in which you exceeded the threshold. Your date of registration will be the first day of the second month after you went over the threshold.

If you register because you expect to receive payments exceeding £90,000 in the next 30-day period, you must register in the next 30 days. Your date of registration will be the date you realised you will exceed the threshold.

VAT Registration



Registration can be done online, completion of form VAT1



HMRC resource and potential delays



HMRC has a team to deal specifically with increased applications



Watch this space

Fees in advance

Anti forestalling rules

- Payments received before 29 July 2024 – need to review terms of payments, mixed views!
- Payments between 29 July – 29 October for education provided after 1 Jan, subject to VAT
- Cannot include VAT on invoices until you get VAT registration number but can increase prices to reflect the VAT you need to pay to HMRC

VAT Basics

VAT Basics

VAT was introduced as the “simple tax”! 50 years on it is now one of the most complicated taxes to navigate and apply correctly.

As a concept, the idea is that if you charge VAT (at any rate) on your income, any VAT that is incurred on the costs used to generate that income can be reclaimed.

If you have taxable income above a certain level (currently £90k) you must register and account for VAT to HMRC.

What's so difficult?

- You have to decide what income is subject to VAT and what income can qualify for exemption, navigating the VAT legislation and guidance is not as easy as it looks.
- VAT is a self-assessing tax, so it is up to you! However, HMRC will penalise you if you get it wrong and if they consider the error to be as a result of not taking “reasonable care” (somewhat subjective).
- Even if you ask HMRC what the VAT treatment is, they will sometimes just tell you to read their Notice on the subject!

VAT Basics

Businesses will need to register for VAT in order to charge and reclaim VAT incurred on costs.

Businesses that make both taxable and exempt supplies can only recover VAT incurred on taxable activities.

Businesses must directly attribute costs to activities where possible and apportion any overhead costs. This is referred to as “partial exemption,” and is covered in more detail later.

Existing taxable income captured – goods, sports facilities, other services

Making tax digital and vat returns

VAT invoices and importation requirements

Reverse charge costs’ e.g. LinkedIn, Google

VAT Basics

Focus on Making Tax Digital (MTD) and VAT accounting

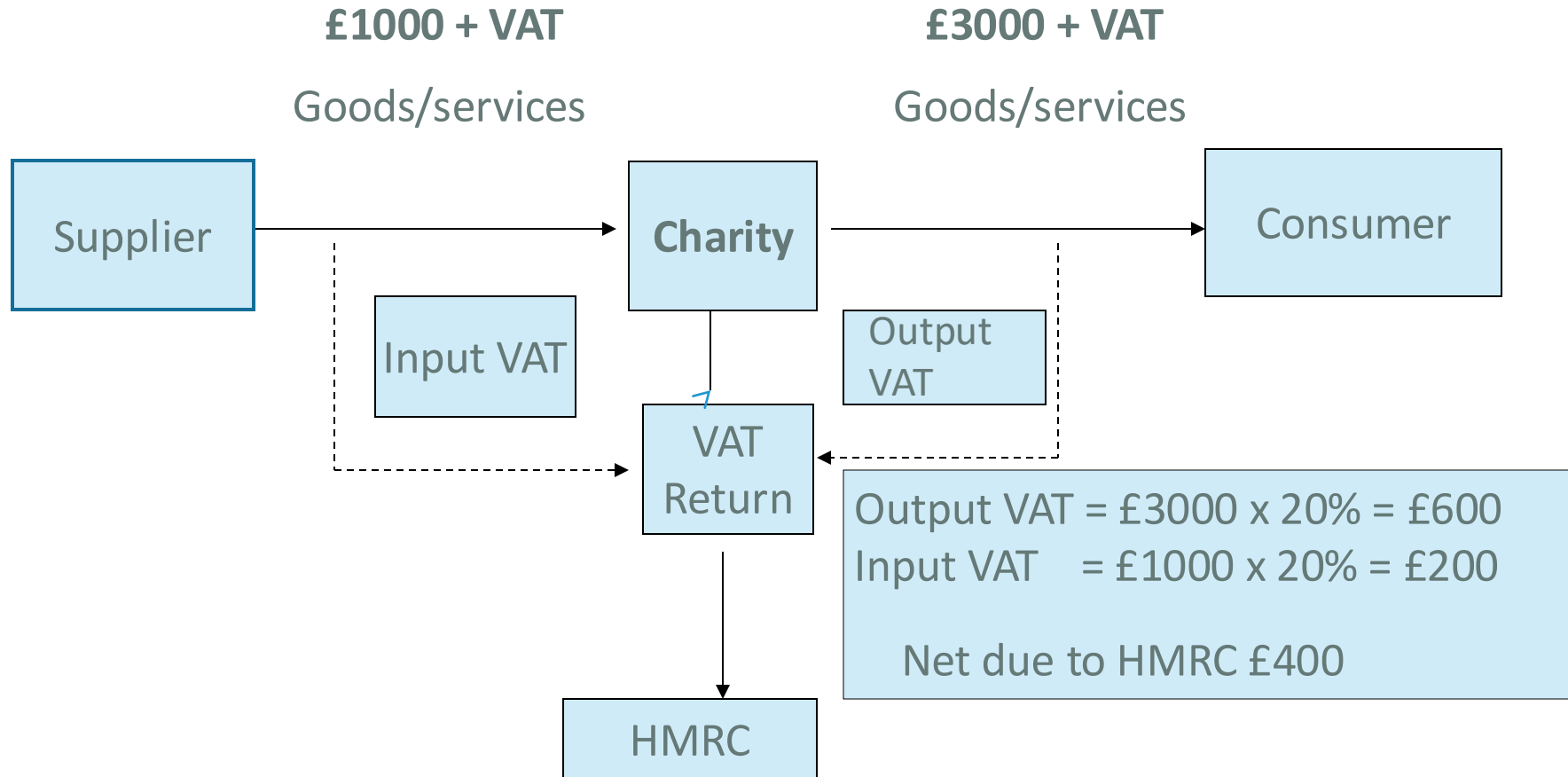
VAT accounting and record keeping must be MTD compliant

Your VAT return information and the quality and accuracy of your VAT accounting is driven by the inputting of information correctly and in the most efficient way!

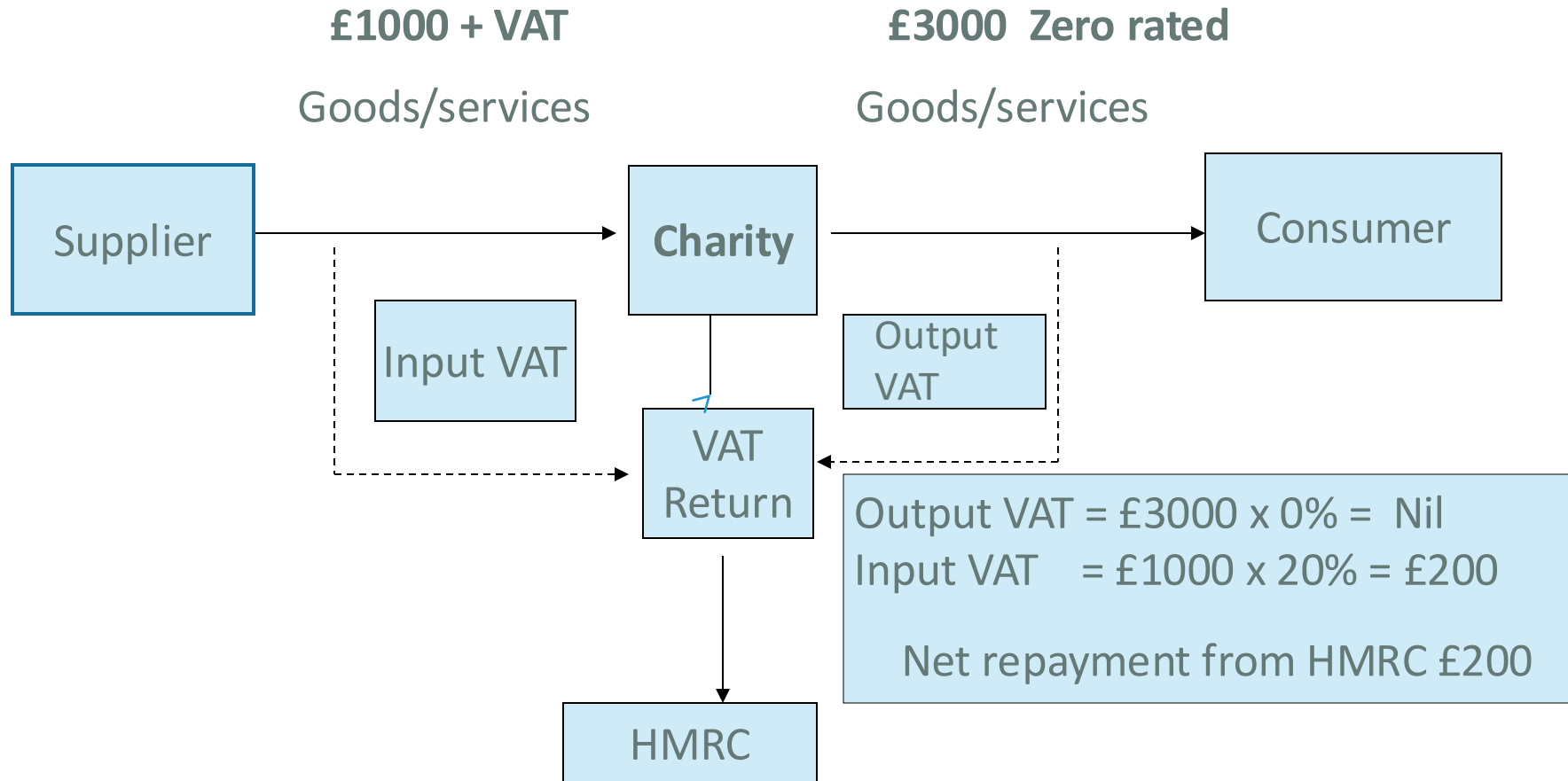
Worth investing in training Accounts Payable staff and overall VAT accounting process upfront

Start posting purchase invoices showing net, VAT and gross amounts

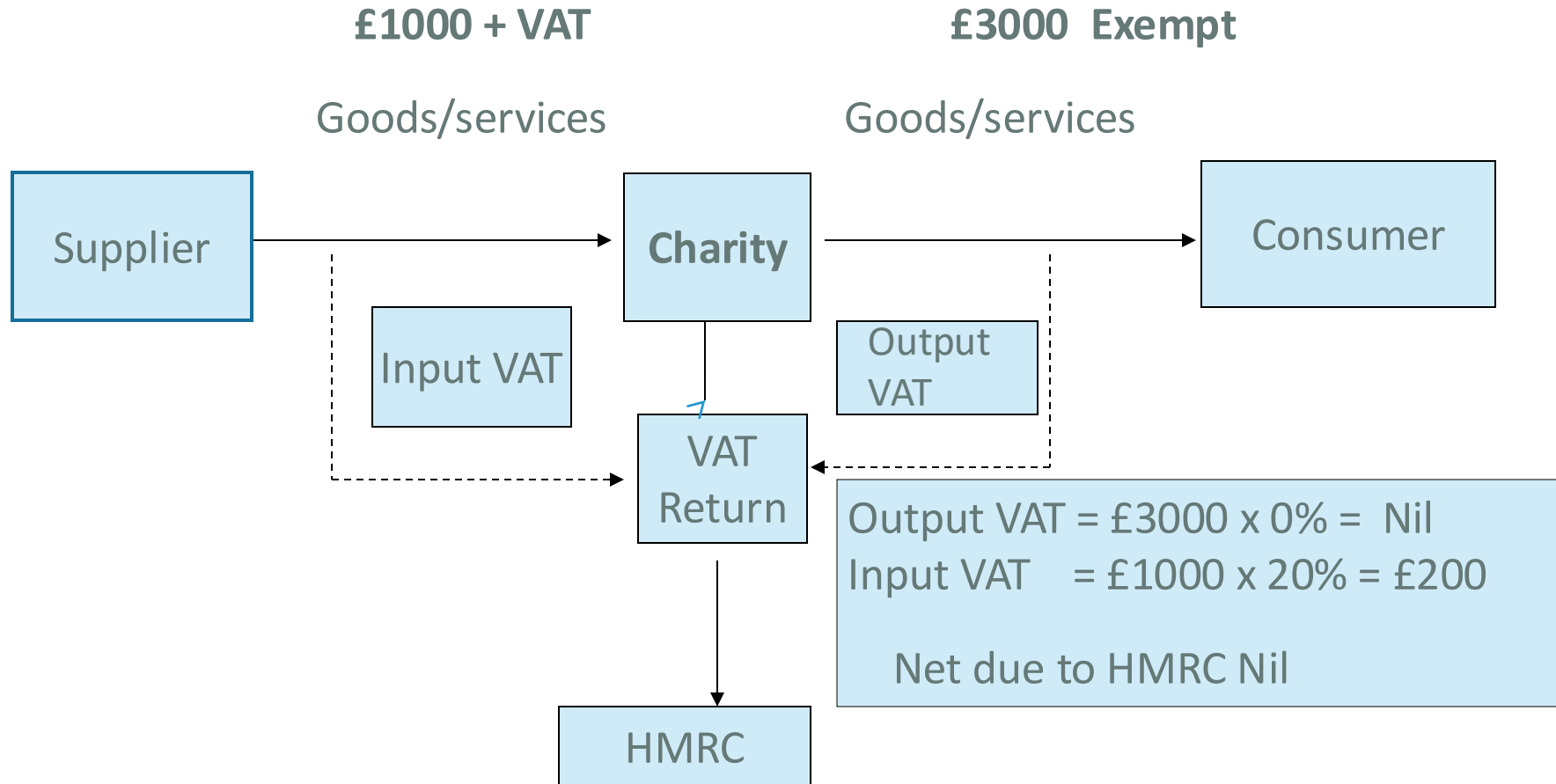
How VAT works



How VAT works



How VAT works



VAT recovery of costs and partial exemption

Partial exemption

- Recover all VAT that directly relates to taxable business activities
- Do not recover any VAT that directly relates to exempt business activities
- Apportion residual/overhead VAT under the partial exemption rules for any costs that cannot be directly attributed
- Standard method of partial exemption:
$$\frac{\text{Taxable income}}{\text{Taxable + Exempt income}} \times 100$$
- Can round up to next whole percentage

Partial exemption

- Standard method does not need to be agreed with HMRC and is the default method
- Possible to agree alternative methods which can only be used with the agreement from HMRC
- Methods can utilise, staff time, sectorised methods for different income generating areas i.e. treating sports facilities as a separate sector, or cost-based analysis.
- However, very difficult to agree any method with HMRC as HMRC will expect you to demonstrate why the new method is a more accurate measure of the use of costs than the standard method

Partial exemption



Partial exemption calculations done outside of MTD



Annual adjustment requirement



Capital Goods Scheme (more detail later)



Key to link partial exemption plans and VAT accounting and Accounts Payable

Areas of difficulty and opportunities

VAT recovery issues

- Pre-registration input VAT
- Apportionment and interaction with partial exemption
- Capital Goods Scheme opportunity
 - Can go back up to 10 years
 - All building refurbishment works that have been capitalised in the accounts, including related professional fees
 - Standard method override

Pre-registration input tax

Goods

- 4yrs & on hand at the time of registration
- HMRC discretion to allow partial recovery – 5 yrs adjustment period i.e. period of exempt use vs taxable use

Services

- 6 months before registration, If services consumed – no recovery
- Ongoing services, e.g. leasing of equipment
- HMRC indicating pragmatic approach, partial recovery?

Capital Goods Scheme ('CGS')

- CGS is designed to adjust the initial VAT recovered on a 'capital item' based on use of the item
- 'Capital Item' - most cases where VAT incurred on property spend of £250k+ eg property refurbishment or acquisition of new building
- Adjustment period
 - generally, 10 years for property

Capital Goods Scheme ('CGS')

Charity constructs building in 2023, pays £1m VAT

- Used for exempt purposes – no recovery
- Year 2024, continued exempt use – no recovery
- Jan 2025 – taxable use, say 85% PE recovery rate
 - $(£1m \div 10) \times (0\% - 85\%) = £85k$ recovery
- Year 2026 – PE recovery rate of 75% – recover £75K
- SMO Issue?

Welfare vs Education?

- provision of care, treatment or instruction designed to promote the physical or mental welfare of elderly, sick, distressed or disabled persons
- care or protection of children and young persons
- provision of spiritual welfare by a religious institution as part of a course of instruction or a retreat, it must not be designed primarily to provide recreation or a holiday

After School Clubs vs Breakfast Clubs? If these comprise of care, fees charged will be exempt

Definition of closely related supplies?

- Need further guidance as to what is closely related
- Meals charged to pupils – exempt or part of a single supply of education. HMRC seem to accept separate supply if a separate fee
- School trips, buying in accommodation & transport, resold to pupils – interaction with Tour Operator Margin Scheme
- Bursary payments – subject to VAT, unless the school itself is supplying bursary to pupil, outside the scope

HMRC support

Email enquiries: vatonprivateschoolfees@hmrc.gov.uk

HMRC Guidance

- [Check if you must register for VAT if you receive private school fees - GOV.UK](#)
- [Charging and reclaiming VAT on goods and services related to private school fees - GOV.UK](#)

Buzzacott

Buzzacott support

VAT on private school fees training event

Following this introductory VAT on private school fees webinar, we are hosting an in-depth, interactive training seminar to provide tailored support and expert insights on the practical implementation of VAT post-legislation. Attend this event for an opportunity for bespoke training to your organisation and discuss further questions.

Date: 16 January 2025

Time: 14:00 – 16:00

Location: Buzzacott, 130 Wood Street, London EC2V 6DL

[Find out more](#)

Contact the speakers



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Socrates brings over 35 years of VAT advisory experience, specializing in charities, educational bodies, NHS charities, membership organisations, housing associations, and cultural institutions. Prior to joining Buzzacott, he led his own consultancy, SOC VAT Consultants, for 16 years and headed PwC's national not-for-profit VAT team. His expertise spans VAT on property and construction, recovery methods, dispute resolution, and tribunal appeals.



Kam Chauhan

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Kam advises not-for-profit and corporate clients with expertise in financial services, FinTech, M&A, and property. Recognising VAT's complexity, he brings clarity so clients can focus on business. Alongside his team, Kam assists with capital projects, partial exemption, VAT recovery, and HMRC disputes. Before Buzzacott, he spent over 20 years at mid-tier, top-10, and 'big four' firms. Kam regularly writes and speaks on VAT topics.

Thank you