

VAT on school fees

‘technical background’



**Big for Tax**

A toucan with a large, colorful beak (yellow, red, and green) is perched on a bare tree branch. The background is a clear blue sky. A blue speech bubble is positioned above the toucan, containing the text 'Is all education VAT exempt?'.

Is all education VAT  
exempt?

A blue speech bubble with a white outline, containing the word 'No' in white text. The bubble has a tail pointing towards the bottom left.

No

**Big for Tax**

EU VAT law  
education exemption  
for

Private  
tuition

Public bodies

Other bodies  
recognised by  
member state

Local authority  
schools

Other providers

EU VAT law  
exemption for

Public bodies

Other bodies  
recognised by  
member states

‘Eligible bodies’

# VAT exemption

Education provided by eligible bodies

Closely related supplies (school dinners, accommodation)

Private tuition in a subject ordinarily taught in schools

# Eligible bodies

A school (as defined by Education Acts)

UK universities (and appendages)

FE colleges

Non-profit making bodies who re-invest surpluses from education into education

A body which provides TEFL (only for English teaching)

Eligible body



Schools



FE colleges



UK universities



Ineligible body

Nursery

GCSE crammer

Secretarial college

CPD provider

Non-profit making bodies who re-invest surpluses into education

**Big for Tax**



Eligible body



Schools



FE colleges



UK universities



Ineligible body

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Non-profit making bodies who re-invest surpluses into education

**Big for Tax**



**Big for Tax**

A vibrant bird with a black head, yellow eye-ring, and iridescent green and blue feathers is perched on a thin, bare branch. A blue speech bubble with a white border points towards the bird. The background is a clear, light blue sky.

What does exemption  
mean?

**Big for Tax**

# Before we go there....

Not everyone needs exemption

Free education – non-business activity

Local authority schools

Academies (!?)

And they get VAT refunds

# Exemption means....

No need to charge VAT on income

BUT – no right to reclaim VAT on expenditure

Cost of a new building = £10m + £2m VAT

# Loss of exemption means....

Need to charge VAT on income

Can reclaim VAT on expenditure

Cost of a new building now £10m

(and can adjust earlier spend)

BUT staff costs have no VAT



# Some things to think about....

- How to enact?
- Remove schools from list of eligible bodies,
- But private schools which are charities....
- Have 2 routes to exemption



# Some things to think about....

- Comparison with academies
- Boarding schools
- Providing care?
- 28 day rule for accommodation (VAT on 20% of fees)

# Some things to think about....

- Merge with other eligible bodies?

A brief foray into business rates....

- Relief only if a private school is a charity



**Big for Tax**



Stuart Adam, IFS

15 April 2024

IFS-CIOT debate

@TheIFS

# Should VAT be charged on private school fees?

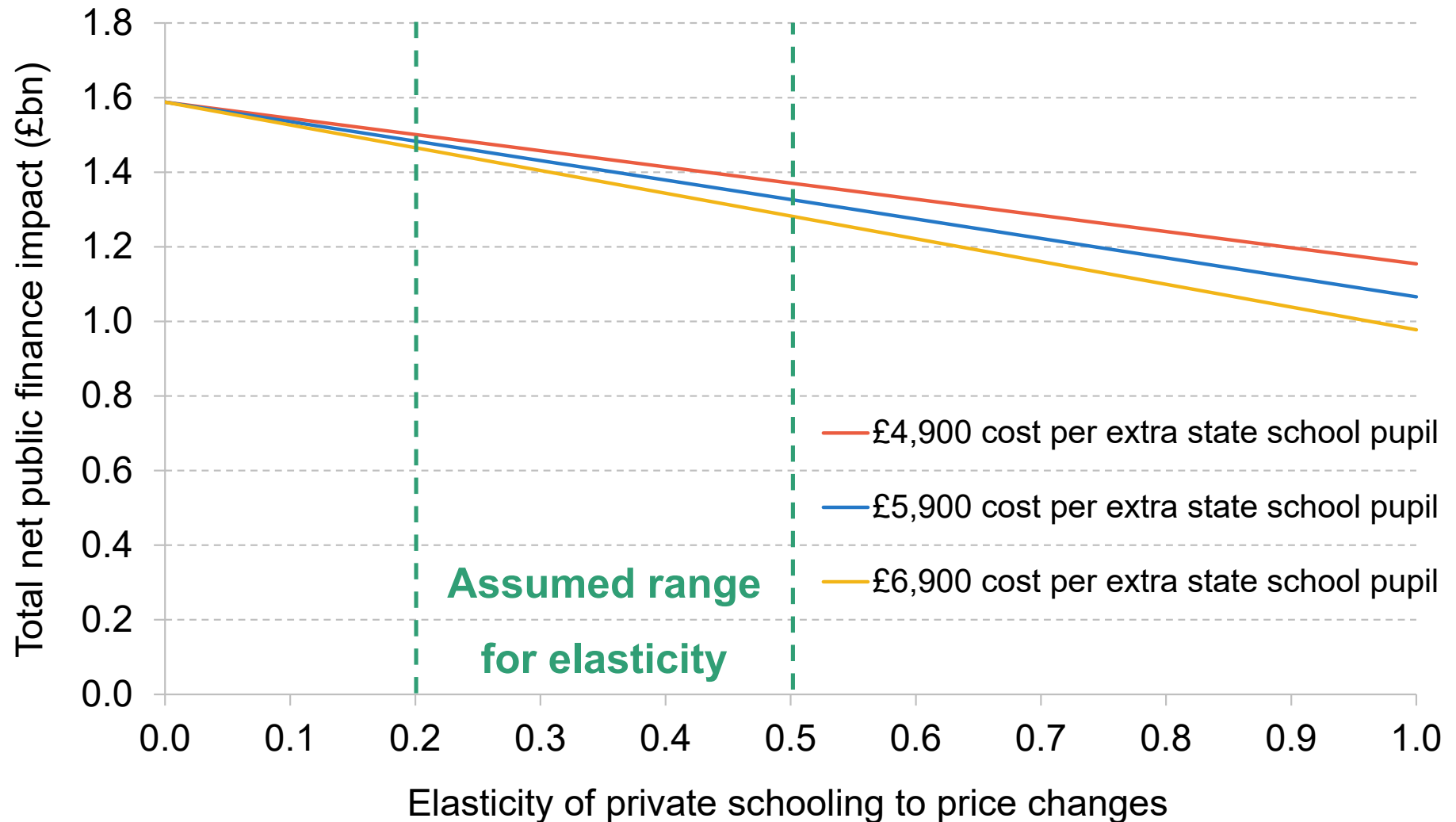


Economic  
and Social  
Research Council

# Labour policy

- End VAT exemption of private schools
  - Charge 20% VAT on school fees
  - Enable schools to reclaim VAT charged on their input purchases
  - Net tax rise roughly equivalent to 15% of fees
  - $\approx$  £2,500 a year with current average fees of about £16,000
  - Continued exemption where pupil with special educational needs has an education, health and care plan (EHCP) saying private schooling is needed
  
- Remove current 80% business rates relief
  
- Use revenue to increase spending on state schools

# Net yield from Labour policy



Source: Figure 6 of L. Sibieta (2023), *Tax, private school fees and state school spending*, IFS Report

# Beyond redistribution

- Would raise revenue from a group that is, on average, well-off
  
- But can tax well-off people in other ways: is taxing private education better or worse?
  - Should we tax those who buy private education more or less than those with same income who use their money differently?
  
- But first: what would it look like if tried to tax them the same?

# Consumption or investment?

- VAT is tax on consumption expenditure
  
- How far is private schooling consumption vs investment generating higher earnings?
  - Financial returns (better-paid job) already taxed – don't tax twice
  - Other benefits (better school experience, social status, future non-financial rewards) aren't
  
- But not operating in otherwise free market economy...



# Not an ordinary market

- Main alternative to private schooling is free state education
- Private education saves the state the cost of educating that pupil
- Should the state be willing to contribute that amount towards private school fees?
  - As in classic proposals for school vouchers
  - Would be more generous than VAT exemption
- ...even if some willing to pay for private education without that?
- Might depend on the rationale for offering non-means-tested state education (and for making education compulsory)

# Wider benefits of private schools?

## Social benefits might justify support if...

- Benefits the exchequer (taxpayers), as already mentioned:
  - Saves the cost of state education
  - Tax on higher future earnings & spending
- Better education brings benefits to wider society
  - Or benefits to the pupil that parents don't fully take into account
  - Related to why schooling is compulsory, and free in state sector
- Private schools contribute to the community

# Wider costs of private schools?

## Social costs might justify penalty if...

- Benefits of private education to pupil come at others' expense
  - Higher-paid jobs because of networks & access, not productivity
  - So higher future earnings *for those pupils* but not *in aggregate*
- Private education damaging to social mobility
- Social costs of segregation
- Educational costs (or benefits) of segregation
  - Would bringing (typically high-ability) private pupils & teachers into the state sector improve (or worsen) outcomes?

# Conclusion

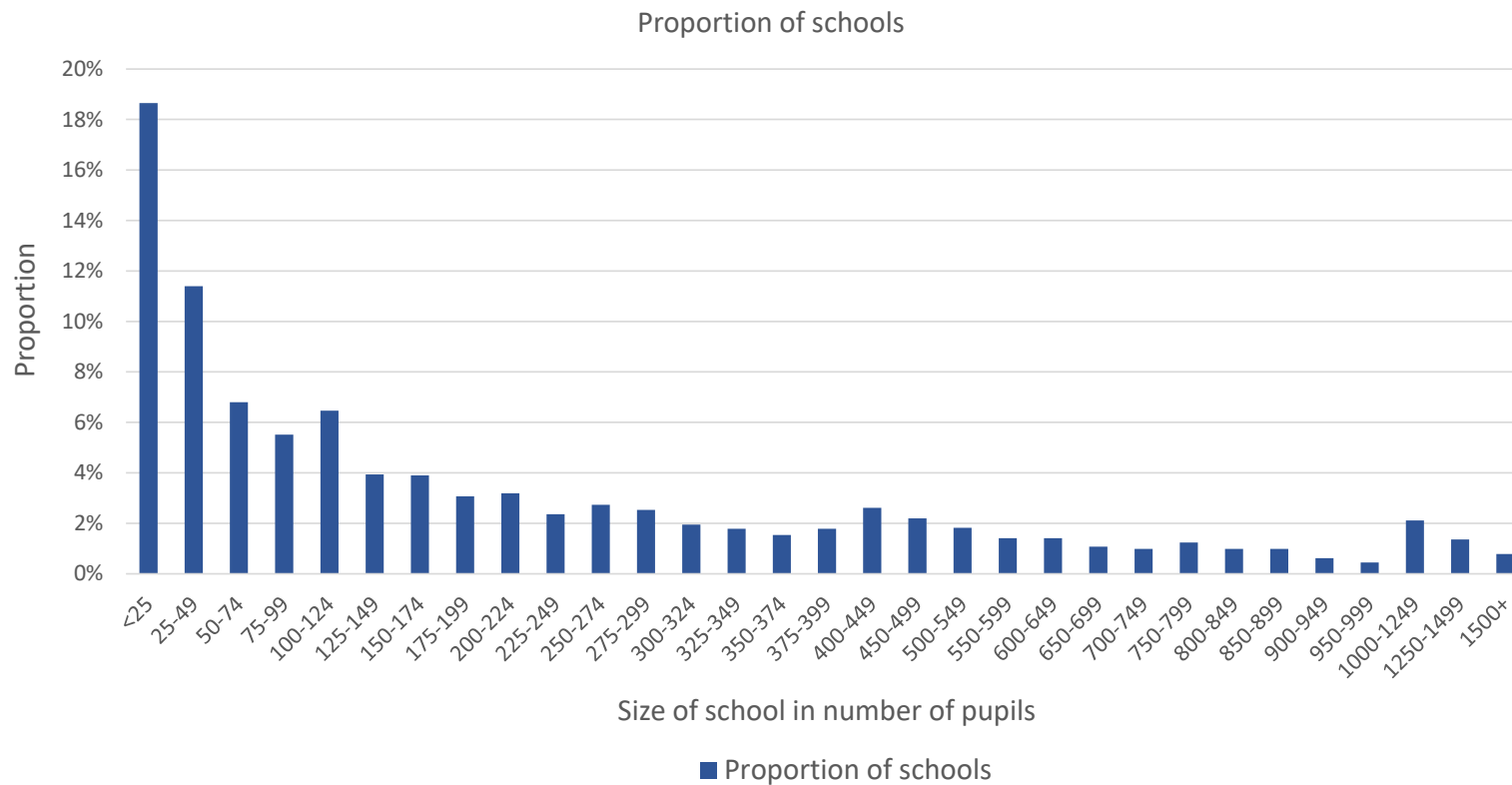
- Lots of detailed practical issues not explored, e.g.:
  - SEN provision
  - Boundaries of what VAT would apply to
- Arguments for encouraging or discouraging private schooling
- But relative to what baseline?
  - VAT-free (investment) or VATable (consumption)? Or voucher?
- A case for a reduced rate?
  - VAT not all-or-nothing
  - Even with no change in overall generosity, allowing recovery of input VAT could reduce distortions e.g. incentive to self-supply
  - But adding more different treatments can also be problematic

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CIOT/IFS online debate:

Should VAT be charged on private school fees?

# Proportion of independent schools by size of school in number of pupils, England, 2023-24



Source: Department for Education (2023)



# Specialist provision in independent schools

- 120,000 students across independent schools receive support for SEND
- In ISC schools, 1 in 5 students is receiving SEND support
- The majority of these students do not have EHCPs
- 60% of pupils at an independent school attend an institution aligned with a particular faith
- 70% of Islamic schools within ISC charge less than £6,000 a year



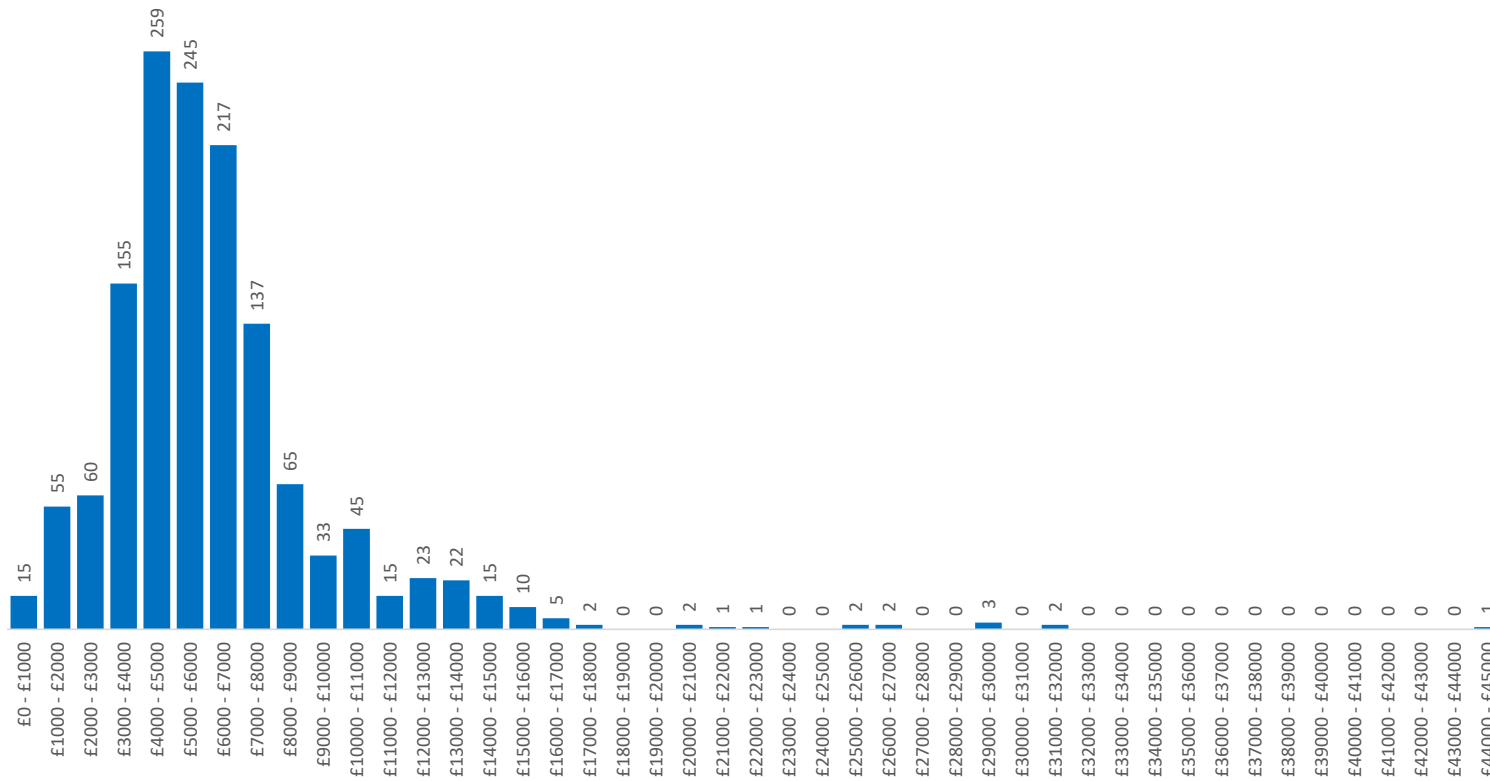
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## Independent school parents

- Two-thirds of households with at least one child at an independent school have two people in paid employment
- Over two in five parents (43.0%) have no experience of independent education themselves

Source: ISC Parent Survey, October 2022 (16,333 parents from 332 different schools)

# Average weighted termly fee (2023)



# Independent school pupil movement

- At 5% movement (mid-IFS estimate): 29,600 pupils
- At 10% movement: 59,200 pupils
- At 15% movement: 88,800 pupils
- At 20% movement (parent polls): 118,400 pupils
- At 25% movement (ASI and Baines-Cutler): 148,000 pupils

# VAT: unintended consequences

- Disproportionate effect on smaller schools with lower fees
- Over 90,000 children receive SEND support but do not have an EHCP – potential impact on demand for EHCPs
- Faith schooling and availability of similar faith provision locally for religious families
- Increase in inequality within the state sector
- Making the UK an international outlier in the treatment of education in tax terms

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# Thank you

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