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THE TAXING MATTER OF SCHOOL FEES

As shoes are polished and fresh new school uniforms get their first iron many parents may start feeling daunted by the cost of their children's education. For example, if you take fairly typical boys' preparatory school fees of £2,400 a term and assume inflation of 6 per cent per annum, then the total cost over 16 years of sending one boy to prep and senior school, followed by university, is almost £300,000*.

A recent article from the BBC stated that more people are taking their children out of private schools and into state education. Funding the cost of education can be significant, however, if arranged in a tax efficient manner it may be easier than you originally thought.

There are various options available. One focuses on generous grandparents putting monies, shares or assets into trust. The income tax can then be charged as if the income was the children's own, therefore benefitting from their personal allowance and lower rates of tax. As an illustration of the benefits, if you fund £6,475 of school fees through a trust, it costs precisely that. But a higher rate taxpayer would have to earn a gross salary of £10,900 to find the equivalent net cash; or use savings income of over £10,000.

Other arrangements use the tax relief on pension contributions and the lump sum available on retirement, where the fees are effectively funded by the tax relief on pension contributions. At the age of 50 an individual can draw a lump sum from their pension equivalent to 25% of the value of the fund. It is this lump sum that is used to pay school fees; whether directly or more commonly where borrowings, undertaken in advance to settle the school fees, are paid off by the pension lump sum.

Whether looking at school fees or other areas, it is always important to consider whether you could arrange your tax affairs in a manner that would be more beneficial to you.

If you would like to know more about some of the arrangements for school fees or would like more general advice about your tax affairs please contact Andrew Diver at Beatons Group on email: andrew@beatons.co.uk or Tel: 01394 279692.

Beatons Group are a chartered accountants, registered auditor, tax advisor, and financial and accounting outsourcing business with offices in Felixstowe & Ipswich.

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Notes to editors:

* Figures taken from www.privateschools.co.uk