



DANES HILL SCHOOL

VAT FAQ's

Summer 2024

FAQ's

Q1 WHAT HAS THE NEW LABOUR GOVERNMENT DECIDED?

The Treasury released a technical consultation, draft legislation, and explanatory notes on 29 July 2024. On the same day, the Chancellor announced the date of the Budget will be 30 October 2024.

The papers confirm the legislation introducing VAT on school fees will apply from the date of the Budget and to VAT on school fees from 1 January 2025.

In other words, whilst the legislation takes effect from 30 October 2024, it only applies to supplies made from 1 January 2025.

The change is being implemented by introducing an 'exception' to the VAT legislation which introduces a definition of 'private school' and removes it from the list of eligible bodies, thus preventing it from exempting its supplies.

The provision of nursery education whether at a standalone nursery or one attached to a private school **will remain exempt**. VAT will therefore only apply from the first year of primary school (the year in which compulsory school age is reached).

(Hays MacIntyre, August 2024)

Q2 HOW WILL A VAT CHANGE AFFECT THE LEVEL OF SCHOOL FEES?

As a school, the Board has made the decision that we will not transfer the full introduced headline rate of VAT to parents, should it become applicable during the next academic year. We want to support our parents as much as we can, and therefore we commit to reducing net school fees, as soon as VAT becomes applicable. This supportive measure will be implemented for twelve months, commencing from the introduction of VAT on school fees (for example, from 1 January 2025 to 31 December 2025). Following this initial period, the Governing body will undertake a review to determine the next steps. The net effect will be that, by reducing the fees, the impact on parents of any imposition of VAT will be mitigated by half. In this instance, as VAT has been introduced at a rate of 20%, fees inclusive of VAT will only be 10% higher than the current fees.

Q3 HOW WILL THIS TRANSLATE ON MY BILL FROM 1 JANUARY 2025?

This is demonstrated in the tables below:

	Sample - £100 net fee, 20% VAT	
	If full 20% VAT passed to parents	If 10% VAT absorbed by DHS and 10% to parents
Base School Fees 24-25	100.00	100.00
Fee savings passed on by school	-	8.33
Resultant net fee	100.00	91.67
20% VAT	20.00	18.33
Payable by parent 24-25	120.00	110.00
Half of VAT levy cost	10.00	
Comparative VAT balance calculation	110.00	



This translates to the following for the 2024-25 fees by Form group:

	Year 3 to 8- If full 20% VAT passed to parents	Year 3 to 8 – 10% VAT absorbed by DHS and 10% to parents	Reception & Year 1 – If full 20% VAT passed to parents	Reception & Year 1 – 10% VAT absorbed by DHS and 10% to parents
Base School Fees 24-25	7,950.00	7,950.00	5,620.00	5,620.00
Fee savings passed on by school	-	- 662.50	-	- 468.33
Resultant net fee	7,950.00	7,287.50	5,620.00	5,151.67
20% VAT	1,590.00	1,457.50	1,124.00	1,030.33
Payable by parent 24-25	9,540.00	8,745.00	6,744.00	6,182.00
Half of VAT levy cost	795.00		562.00	
Comparative VAT balance calculation	8,745.00		6,182.00	



We have made an exception for Year 2, where fees will be adjusted to ensure parents do not experience an increase following the imposition of VAT. We made this decision after a thorough review of our fees compared to publicly available information on the fee structures of our competitors.

Q4 WILL THIS HAVE AN IMPACT ON ALL PART OF SCHOOL FEES? IS ANYTHING EXEMPT?

Some closely related supplies of goods and services such as school meals, transport, books and stationery will remain exempt, and are not affected by the changes.

However, if schools artificially attempt to 'value shift', i.e. artificially assign a greater value to these services and lower the amount charged for education and boarding, this will be challenged as VAT avoidance.

Before and after childcare, e.g. breakfast clubs or childcare based holiday clubs that just consist of childcare will remain exempt as welfare.

Q5 HOW WILL BURSARIES AND DISCOUNTED FEE ARRANGEMENTS BE AFFECTED?

To the extent that a bursary is an agreement to provide education free of charge. VAT will only be payable on the portion of fees to be paid that are not covered by the bursary provision. Similarly, with discounted fee arrangements, VAT would only be chargeable on the fee amount paid after the discount has been applied.

Any fee paid for by a third party would have VAT applied.

At Danes Hill School, we have no Bursaries funded by third parties and we will continue to honour our existing bursary commitments in line with our policy.

Q6 WILL VAT BE CHARGED TO OVERSEAS PARENTS TOO?

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 its customers. (*Farrer & Co. Nov 2023*)

Q7 WILL VAT BE CHARGED WHERE FEES ARE PAID BY A THIRD PARTY, I.E. A GRANDPARENT OR A TRUST?

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. (*Farrer & Co. Nov 2023*)

Q8 WHAT ABOUT FEES PAID IN ADVANCE? WILL VAT BE APPLIED RETROSPECTIVELY?

This is a complex issue. Anti-forestalling legislation applies to all payments made from 29 July in respect of supplies made from 1 January 2025. In other words, fees in advance payments made after 28 July 2024 are no longer effective in setting a tax point.

The papers also say that some Fees in Advance schemes may be challenged if HMRC consider they are ineffective in setting a tax point. The only detail they give is "the scheme involved paying a lump sum to the school in advance, but the details of the supplies that the money was buying were not determined at the time the money was paid", (i.e. if the money paid did not relate to specific terms). (*Hays MacIntyre, August 2024*).



Q9 WHAT STEPS ARE THE SCHOOL TAKING IN THE LIGHT OF THE CHANGES?

The following are some immediate measures that Farrer & Co. suggest schools could adopt:

- *Undertake a preliminary accounting analysis to estimate what their net exposure to VAT would be (i.e. how much of the input VAT the school currently pays would be available for offset against the VAT that would become payable in relation to fees). Anecdotally, we understand that some schools are updating their accounting software to enable this analysis, particularly on input VAT.*
- *Prepare a breakdown of all of the components of the school fees to identify the cost associated with those elements that could, potentially, remain exempt from VAT or zero-rated (e.g. after-school care, and transport). This is something on which specialist advice might be necessary.*
- *Consider deferring large capital expenditure projects which typically give rise to significant irrecoverable VAT costs, until it is known whether the policy will come into effect. Input VAT suffered by schools on such projects would potentially be available to offset against VAT due on fees.”*

At Danes Hill School we have either done, or are in the process of executing, all the above. Additionally, we have:

- Surveyed our parent body via engagement with the ISC's 2023 survey of affordability.
- Analysed opportunities for VAT recovery including both future and past (including capital projects).
- Modelled different potential scenarios and are discussing the detailed associated plans.
- Carefully reviewed all budgets to look for streamlining opportunities which do not affect provision for our pupils.
- Benchmarked our financial efficiency against other similar schools

Q10 WHAT WILL THE SCHOOL DO TO REDUCE THE FEE INCREASE WHEN VAT IS INCURRED?

The School will:

- Recover VAT in respect of costs.
- Ensure VAT is charged at the correct rate and appropriately for different services i.e. food, wrap around care etc.
- Careful deployment of disbursements and discounts
- Continue to run budgets as efficiently as possible to keep the school running costs down, focusing on careful management of indirect costs.
- Consider other more significant cost savings and model the finances accordingly, but recognising what parents value in independent education and be mindful of the areas best to target.

Q11 WHAT WILL THIS MEAN FOR THE CAPITAL PROJECTS?

All Capital projects have been carefully reviewed to ensure that we proceed with them at the right time for the School. There may be some benefit to delaying capital projects because of the potential for VAT recovery. However, this would not be the primary reason for progressing or not progressing with a capital project.

Q12 WHO CAN I TALK TO AT SCHOOL IF I WANT TO DISCUSS THIS FURTHER?

If you would like to talk about Danes Hill School fees and your own circumstances, please contact the Finance department via fees@daneshill.surrey.sch.uk. Please note that the Finance Department are not able to give independent financial advice, of course, but are happy to answer questions specific to Danes Hill School.

Q13 WILL CONSIDERATION BE GIVEN TO THE ANNUAL FEE INCREASE IN LIGHT OF THE IMPACT VAT WILL HAVE ON SCHOOL FEES?

The School will continue to monitor annual fee increases carefully and minimise annual fee increases alongside the impact of new VAT rules. Our aim is to keep fee increases to a minimum where possible. It is worth noting that across the independent sector, teachers' and staff pay awards are dependent on fee increases.

Q14 WILL THE TERMS OF REFERENCE IN MY EXISTING PARENT CONTACT STILL BE VALID?

Yes

Q15 WILL I HAVE TO PAY VAT ON MUSIC LESSONS IF THE TEACHER IS NOT EMPLOYED BY DANES HILL SCHOOL?

There will not be any changes to the 2024-25 cost of the music lesson per session

Q16 If VAT becomes chargeable and I can no longer afford the fees will FILON (fees in lieu of notice) still apply?

A term's notice will still be required as per our parent contract, so we can budget accordingly. If you have changing circumstances or are facing difficulties, please communicate with the School as early as possible, through the Fees Manager or Financial Controller, so that we can advise you.

Q17 Does the School have charitable status? Does this affect the VAT charged?

Yes, the School has charitable status, and our charitable objectives are the foundation upon which Danes Hill School is built and key to all that we do. It is worth remembering that the Labour Party has said that it does not now seek to remove independent schools' charitable status.





DANES HILL SCHOOL

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