

A photograph of a classroom with students in blue uniforms. One student in the foreground has their hand raised. The text 'School fees planning' is overlaid in white on the image.

# School fees planning

**We can help you with planning for education costs, whether you are a parent or a grandparent or other interested party.**

## A discretionary trust

In this option, a grandparent sets up a trust for their grandchildren.

A grandparent can add a sum of up to £325,000 to the trust without an inheritance tax (IHT) charge (assuming no previous gifts in the last seven years).

The trust fund can provide an income and/or capital that can fund future school fees.

Income payments from the trust are paid net of income tax to the grandchildren. The grandchild can then reclaim part or all of the tax paid by the trustees via their personal allowance.

A parent can do something similar to this but, because any income cannot be paid out of the trust until the child is over 18 years of age, it would be suitable for their university fees.

Any arrangement by which company dividends are diverted from a shareholder director to minor beneficiaries would fall foul of UK anti-avoidance provisions, so we would strongly recommend taking professional advice before disposing of private company shares into trust.

## Example

Assume that dividends of £20,000 were paid to the trust, with the trust's net income being fully utilised to fund the school fees for one child.

The trust would pay tax at £9,000 and distribute the balance of £11,000.

Assuming the child has no other income, the child would be able to claim a tax refund of £7,500.

This, in addition to the £11,000 distribution, gives a total of £18,500 available to pay school fees.

This compares to tax of £6,750 (assuming higher rate taxpayer) and the net income of £13,250 which would arise if the dividend was paid to the grandparent.

**So, a grandparent paying school funds using a trust structure in the right scenario, could save tax of £5,250 annually.**



## Business or agricultural assets

You can add more value than £325,000 to a discretionary trust if you have relievable assets, such as private company shares or agricultural property that are likely to give the trustees an income source.

There's no inheritance tax on setting up the trust if the assets qualify for 100% relief and chargeable gains can usually be held over.

## Provision for dependent relatives

It's possible to transfer assets to a trust for dependent relatives tax free, provided that the trust doesn't continue beyond the completion of the children's full-time education.

Transferors must be able to convince HMRC that the amount set aside isn't excessive. Excessive amounts won't get the benefit of the relief and will be taxed as chargeable transfers.



## School fee plans

- These are investment schemes designed to provide for school and university fees. These can be funded out of surplus income, if preferred.
- The downside is that the value of plans can go down as well as up, so they can be risky.
- Plans need funds to be invested as soon as (or even before!) a child is born to get the best return.
- There's no guarantee of what the return will be and it may not cover the fees when required.
- Tax can be onerous if the plan is cashed in early.
- We don't advise on this type of plan, but can refer you to an IFA who does.