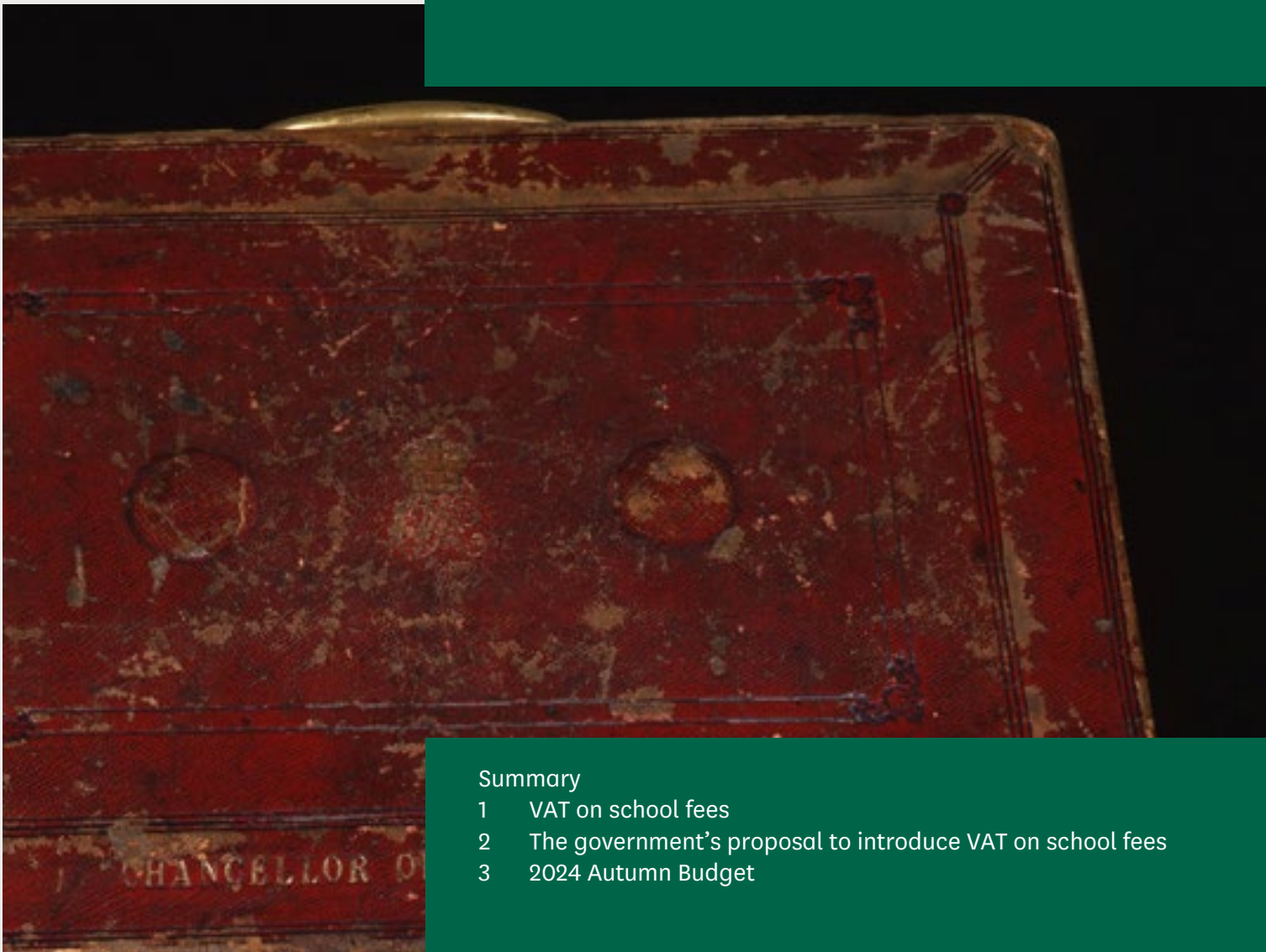


Research Briefing

18 March 2025

By Antony Seely

# VAT on private school fees



## Summary

- 1 VAT on school fees
- 2 The government's proposal to introduce VAT on school fees
- 3 2024 Autumn Budget

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## Summary

### How does VAT work?

[VAT \(Value Added Tax\)](#) is levied on the purchase of many goods and services. It is charged at the standard rate of 20%, though some goods and services are charged a reduced rate of 5% and some are charged a zero rate.

Some goods and services are exempt from the tax. The way businesses account for VAT to HM Revenue & Customs (HMRC) will differ if the goods and services they supply are exempt rather than zero-rated. However, from the perspective of consumers both zero-rated supplies and exempt supplies will be VAT-free.

### What change has the Labour government made to the VAT treatment of private school fees?

Generally the supply of education is [VAT-exempt](#). This has meant that historically private schools have not charged VAT on their fees.

In its 2024 general election manifesto the Labour Party stated that in government it would remove the VAT exemption that applies to private school fees. Following the election [the government announced](#) that private school fees would be charged VAT at the standard 20% rate from 1 January 2025.

The Chancellor Rachel Reeves confirmed the government's plans to charge VAT on private school fees in her [Budget statement on 30 October 2024](#). Legislation to this effect is included in the [Finance Bill 2024-25](#) which was published on 6 November 2024 (specifically clauses 47 to 49 of the bill).

### What is the impact of extending VAT to private school fees?

It is estimated that extending VAT to private school fees will raise [£460 million in 2024/25, rising to £1.51 billion in 2025/26](#). The government forecast that imposing VAT on fees will result in [37,000 pupils leaving the private sector, representing about 6% of the current private school population](#).

HMRC has published guidance for schools on [whether they need to register for VAT](#), and [how schools should charge and reclaim VAT on goods and services related to private school fees](#).

## Further reading

The Library briefing [Independent schools: taxation and charitable status](#) provides further details on the independent school sector and the charitable status that some independent schools have. It also discusses the Labour government's proposal to remove the charitable (business rates) relief currently available to English independent schools that are charities from April 2025.

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# 1 VAT on school fees

## 1.1 How does VAT work?

VAT is charged on the supply of all goods and services made in the course of a business by a taxable person, unless they are specifically exempt. All businesses must register for VAT if their annual turnover of taxable goods and/or services is above a given threshold, currently set at [£90,000](#).

VAT is charged on the additional value of each transaction. It is collected at each stage of production and distribution. A business pays VAT on its purchases (known as input tax), and charges VAT on its sales (known as output tax). It will settle with HM Revenue & Customs (HMRC) for the difference between the two. In the end the cost of the tax is borne by the final consumer.<sup>1</sup>

VAT is charged either at the standard rate – currently 20% – or the zero rate, though there is limited use of a reduced rate of 5%.<sup>2</sup>

The exemption of goods and services from VAT should be distinguished from their being charged a zero rate.

Although a business will not charge a customer VAT on their supply of zero-rated goods or services, the supply will still count as part of a business' taxable turnover. VAT charged on inputs relating to zero-rated activities can be reclaimed, unlike the VAT incurred by a business in the course of an exempt activity. In the latter case, a business making exempt supplies has to absorb the VAT charged to it by its suppliers. This is often called 'irrecoverable' VAT.

From the perspective of the final consumer, both zero-rated supplies and exempt supplies will be VAT-free.

VAT law is consolidated in the [VAT Act \(VATA\) 1994, as amended](#).

[Schedule 9 to the Act](#) lists those goods and services which are exempt from VAT. Categories of exempt supplies include land, insurance, finance, education, health and welfare.

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<sup>1</sup> HMRC's VAT Guide ([VAT Notice 700, September 2023](#)) provides an overview of the basic rules of VAT (see [section 4](#)).

<sup>2</sup> Around half of household expenditure subject to the 20% standard rate, while around 2.5 per cent of expenditure is taxed at the reduced 5% rate (Office for Budget Responsibility, [Tax by tax: VAT](#), updated 17 April 2024).

[Schedule 8 to the Act](#) lists those goods and services which are charged a zero rate. Categories of zero-rated supplies include food, construction of new dwellings, domestic and international passenger transport, drugs and medicines on prescription, and certain supplies of goods and services charities.

HMRC publishes detailed guidance on the rate of VAT that is charged on different goods and services.<sup>3</sup>

## 1.2 How have school fees been treated for the purpose of VAT?

Schedule 9 to VATA 1994 lists supplies that are VAT-exempt.

[Group 6 of schedule 9](#) deals with the supply of education. This establishes that the provision of education, research or vocational training by an “eligible body” is exempt from VAT.<sup>4</sup> In addition the provision of examination services, as well as the supply of goods or services “closely related” to the supply of education, research or vocational training, if provided by an eligible body, are also VAT-exempt.<sup>5</sup>

The term “eligible body” broadly refers to most regulated, publicly funded, or not-for-profit education providers. It also extends to commercial providers to the extent that they provide the teaching of English as a foreign language.<sup>6</sup> Private schools are considered to be regulated by virtue of needing to register with the government and be inspected regularly. As a consequence private schools have entitled to provide private education and boarding services for a fee without having to charge VAT.<sup>7</sup>

HMRC publish detailed guidance on the scope of the VAT exemption for supplies of education.<sup>8</sup> This provides a list of organisations that would be classified as an eligible body in this context:

- a school (including private schools), sixth form college, tertiary college or further education college or other centrally funded further education institution (defined as such under the Education Acts)

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<sup>3</sup> HMRC, [VAT rates on different goods and services](#), updated 11 July 2022

<sup>4</sup> specifically, item 1 to [group 6 of schedule 9 to VATA 1994, as amended](#). The term ‘eligible body’ is defined by note 1 to group 6.

<sup>5</sup> item 3(a) and item 4 to [group 6 of schedule 9 to VATA 1994, as amended](#)

<sup>6</sup> HM Treasury, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 1.7

<sup>7</sup> [As above](#) para 2.2

<sup>8</sup> HMRC, [Education and vocational training: VAT Notice 701/30](#), updated 27 January 2025



- a centrally funded higher education institution in Wales, Scotland and Northern Ireland (defined as such under the Education Acts)
- the governing body of one of these institutions:
  - a local authority
  - a government department or executive agency
  - a non-profit making body that carries out duties of an essentially public nature similar to those carried out by a local authority or government department
  - a health authority
- a non-profit making organisation that meets certain conditions
- a commercial provider of tuition in English as a Foreign Language (EFL) in which case special rules will apply [...]
- a university
- a higher education provider registered in the approved (fee cap) category of the register maintained by the Office for Students from the date of inclusion in the register.<sup>9</sup>

HMRC's guidance goes on to underline that "an organisation is likely to be an eligible body, where it's a charity, professional body or company: that cannot and does not distribute any profit it makes; with any profit that might arise from its supplies of education, research or vocational training is used solely for the continuation or improvement of such supplies."<sup>10</sup>

In this context, 'education' means a course, class or lesson of instruction or study in any subject, regardless of when and where it takes place. It would include lectures; educational seminars; conferences and symposia; recreational and sporting courses; as well as distance teaching and associated materials.<sup>11</sup>

Prior to the extension of VAT to private school fees from 1 January 2025, the VAT consequences for an 'eligible body' if it was charging for its supply of education were as follows:

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<sup>9</sup> HMRC, [Education and vocational training: VAT Notice 701/30](#), updated 27 January 2025 para 4.1. As noted above, the term is defined by [note 1 to group 6 of schedule 8 of VATA 1994](#).

<sup>10</sup> [as above](#) para 4.3

<sup>11</sup> [as above](#) para 5.1

If school, higher or further education is being provided for a charge [...] the VAT consequences are for an eligible body [...]:

- the education provided is exempt
- any ‘closely-related’ goods or services provided are exempt
- the sales of other goods or services are taxed in the normal way.<sup>12</sup>

HMRC publishes further guidance in its [VAT Education Manual](#).<sup>13</sup>

HMRC publishes estimates of [the cost of various tax reliefs](#), including the cost of the VAT-exemption of specific goods and services.<sup>14</sup> It is estimated that the annual cost of the exemption from VAT for education by eligible bodies is £5.6 billion.<sup>15</sup> By comparison, total annual receipts from VAT are around £169 billion.<sup>16</sup>

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<sup>12</sup> HMRC, [Education and vocational training: VAT Notice 701/30](#), updated 6 February 2023 para 1.2. As noted, this was the situation prior to the extension of VAT to private school fees from 1 January 2025.

<sup>13</sup> See also, Chartered Institute of Taxation, [Tax treatment of private schools – an explainer](#), 21 June 2024

<sup>14</sup> HMRC, [Tax relief statistics](#), updated 5 December 2024. In the case of VAT-exemptions, these figures are included in HMRC’s statistics on [structural tax reliefs](#).

<sup>15</sup> HMRC, [Estimated cost of structural tax reliefs](#), December 2024. Figure for 2023/24. HMRC’s forecast for 2024/25 is £5.3 billion.

<sup>16</sup> Figure for 2023/24. Office for Budget Responsibility, Economic and Fiscal Outlook CP 1169 (PDF) October 2024 [p172 \(Table A5\)](#)

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## 2 The government’s proposal to introduce VAT on school fees

### 2.1 The Labour Party’s policy on VAT and school fees

#### Manifesto commitments and parliamentary debate

In its 2017 general election manifesto the Labour Party stated that in government it would remove “the VAT exemption on private school fees”, using the receipts to “introduce free school meals for all primary children.”<sup>17</sup> The party reiterated this commitment in its 2019 general election manifesto, stating that it would “close the tax loopholes enjoyed by elite private schools” using the receipts from this reform to “improve the lives of all children.”<sup>18</sup>

In January 2023 the then shadow secretary of state for education, Bridget Phillipson, put the party’s case for introducing VAT on independent school fees. This was in the context of a debate on a Labour motion supporting a new select committee to examine reforming the tax status of independent schools.<sup>19</sup>

Ms Phillipson argued that “at a time of economic uncertainty, asking the public to subsidise a tax break for private schools is inexcusable.”<sup>20</sup> She suggested extending VAT on school fees could raise about £1.7 billion, a figure that the then Chancellor Jeremy Hunt had given some months before in his Autumn Statement when he ruled out this route to increase school funding.<sup>21</sup> Ms Phillipson noted that the Labour party did not anticipate this change “would cover specialist provision”, and that the proposed new committee would be able to consider the particular position of children from armed forces families in independent schools.<sup>22</sup>

The then shadow secretary also argued that the government’s case against extending VAT was flawed, given that “private school fees have far outstripped wage rises over the past 20 years”, and that the provision of bursaries to some pupils had had little impact on accessibility, as “the

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<sup>17</sup> Labour Party, [2017 general election manifesto: For the many, not the few](#), May 2017 p

<sup>18</sup> Labour Party, [2019 general election manifesto: It’s time for real change](#), November 2019 p40

<sup>19</sup> [HC Deb 11 January 2023 cc:566-677](#). In the event the motion was [defeated by 303 votes to 197](#).

<sup>20</sup> As above c568

<sup>21</sup> [HC Deb 17 November 2022 c849](#)

<sup>22</sup> [HC Deb 11 January 2023 c570](#)

Independent Schools Council's own figures shows that a mere 8% of children get means-tested fee support."<sup>23</sup>

In response the then Secretary of State Gillian Keegan set out the government's case for opposing this reform. She suggested that those independent schools that were more affordable were "likely to be at greater risk from an increased tax burden", and their closure "would increase inequality and reduce choice for families." In addition many schools would be likely "to seek to avoid passing on the full cost to hard-pressed families", and so might choose "to reduce the bursaries and scholarships that broaden access to such places instead."<sup>24</sup> Further to this, the closure of schools and the reduction in bursaries "would only increase the pressures on the state-funded sector", which might exceed any Exchequer benefit from imposing VAT.<sup>25</sup>

Subsequently the then Minister of State for Education, Nick Gibb, reiterated the Conservative government's opposition to extending VAT on school fees in answer to a PQ the following month. Mr Gibb suggested that changing independent schools' tax status could "make independent education less affordable and create place pressures on state-funded schools which have limited capacity." The Minister went on to note that as the government had no plans to do this, it had "not made an assessment of the impact of such a change on both the independent school sector, and the state education system."<sup>26</sup>

## Analysis of the potential impact of extending VAT on school fees

In July 2023 the Institute for Fiscal Studies (IFS) published some analysis, comparing the expenditure on fees for independent schools with state school spending, and examining the Labour party's proposal to remove independent schools' tax exemptions.<sup>27</sup>

The author, IFS research fellow Luke Sibieta, suggested that imposing VAT on fees and removing business rate relief could raise about £1.6 billion a year in extra tax revenue. This estimate was based on fees being subject to an effective VAT rate of 15% after allowing for schools' deductions of input tax, the likelihood of VAT being extended to boarding fees, and VAT exemption being retained for specialist provision. Mr Sibieta also discussed the potential impact over the medium to long term, if some parents decided to move their children to the state sector, requiring an increase in state spending:

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<sup>23</sup> As above c573

<sup>24</sup> As above c577

<sup>25</sup> As above

<sup>26</sup> [PQ135345](#), 7 February 2023. See also, [PQ\\_H110371](#), 4 October 2023

<sup>27</sup> IFS press notice, [Removing tax exemptions from private schools likely to have little effect on numbers in the private sector, raising £1.3–1.5 billion in net terms](#), 11 July 2023; Luke Sibieta, [Tax, private school fees and state school spending](#), Institute for Fiscal Studies 11 July 2023

If private school attendance drops, state schools will require extra funding to accommodate them. The (limited) evidence on the determinants of the demand for private schooling suggests that the effects of fee rises are quite weak. In the short run, the effect might be extremely small as few parents might opt to take their children out of a school part-way through primary or secondary school. The effect might be larger over the medium to long run.

Our best judgement is that it would be reasonable to assume that an effective VAT rate of 15% would lead to a 3–7% reduction in private school attendance. This would likely generate a need for about £100–300 million in extra school spending per year in the medium to long run.<sup>28</sup>

He went on to note that there was a lot of uncertainty about these estimates, highlighting three issues in particular:

We have not accounted for potential reductions in labour supply and there is the potential for tax avoidance behaviour on the behalf of parents or schools. The effects are also likely to be heterogeneous given the range of different schools in the private sector.

Finally, it is possible that the state sector could easily accommodate extra pupils given that overall pupil numbers across England are due to decline by at least 100,000 per year on average up to 2030 – i.e. a total drop of more than 700,000, which is bigger than the total number of children attending private schools.<sup>29</sup>

Mr Sibieta noted there was relatively little evidence of the impact of higher school fees, though a working paper published by the IFS in 2010 suggested increases in fees had a relatively small impact on the demand for school places.<sup>30</sup> In addition, “the share of pupils in private schools across the UK has hardly changed at all over time, despite a 20% real-terms increase in fees since 2010 and a 55% rise since 2003.”<sup>31</sup> By contrast analysis published by the Independent Schools Council (ISC) in 2018 based on survey data of how parents might react to schools passing on the cost of VAT has suggested a much bigger impact.<sup>32</sup>

Both of these reports were raised in an adjournment debate on this issue in February 2024 initiated by Andrew Lewer (Conservative).

Mr Lewer noted the conclusions to the ISC 2018 report that “the predicted income-related drop-off if the policy is enacted would be nearly 100,000 children.” He also observed that the ISC had surveyed parents and found that

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<sup>28</sup> Luke Sibieta, [Tax, private school fees and state school spending](#), Institute for Fiscal Studies, (PDF) 11 July 2023 p3

<sup>29</sup> [as above](#)

<sup>30</sup> Richard Blundell, Lorraine Dearden and Luke Sibieta, [The demand for private schooling in England: the impact of price and quality](#), IFS Working Paper 10/21, 2010

<sup>31</sup> Luke Sibieta, [Tax, private school fees and state school spending](#), Institute for Fiscal Studies, (PDF) 11 July 2023 p20

<sup>32</sup> Baines Cutler Solutions, [VAT on school fees – report](#), Independent Schools Council (PDF), October 2018. Dan Neidle at the Tax Policy Associates think tank has written a critique of this approach and of the way this analysis has been reported (“[How the Independent Schools Council created a misleading headline](#)”, Tax Policy Associates, 2 June 2024).

“20% of parents who currently send their children to independent schools say they will be priced out and have to educate their children in the state sector.”<sup>33</sup> By contrast Helen Hayes (Labour), then Shadow Education Minister, observed that the IFS’ report found that “our proposals would have little effect on the number of children being educated in private schools, but would lead to a net gain to the public purse of at least £1.3 billion per year.”<sup>34</sup>

In his response to the debate the then Financial Secretary Nigel Huddleston argued that “the numbers suggested by the Opposition simply do not stack up”:

The full knock-on impact has not been properly considered. VAT is an incredibly complex area. It is not simple to make blanket policy without considering the full impact.<sup>35</sup>

## 2.2

# The Labour government’s consultation (July 2024)

## Publication of the Treasury’s technical note

In its 2024 general election manifesto the Labour Party reiterated its commitment to “end the VAT exemption and business rates relief for private schools to invest in our state schools.”<sup>36</sup>

The manifesto suggested that these two measures could raise £1.51 billion by 2028/29.<sup>37</sup> Prior to the election the Conservative government published costings of a number of opposition policies, including this one.<sup>38</sup> This provided a much lower figure for the amounts that might be raised.<sup>39</sup> It is worth noting that this type of exercise relies on a series of assumptions about individual policies that ministerial special advisers will have provided.<sup>40</sup>

Following the election, on 29 July the Chancellor Rachel Reeves gave a statement on the public finances, in which she announced that the Labour government’s first Budget would be on 30 October.<sup>41</sup> At this time the Exchequer Secretary James Murray gave a written statement on the government’s tax priorities. As part of this he confirmed the government’s

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<sup>33</sup> HC Deb 21 February 2024 c314WH

<sup>34</sup> As above c323WH

<sup>35</sup> HC Deb 21 February 2024 c326WH

<sup>36</sup> Labour Party, [2024 general election manifesto: Change](#), (PDF) June 2024 p82

<sup>37</sup> [As above](#) p127

<sup>38</sup> HM Treasury, [Opposition Policy Costings 2024](#), updated 17 May 2024; Jeremy Hunt (@Jeremy\_Hunt), [X/Twitter](#), 17 May 2024.

<sup>39</sup> For details see, HMT, [Opposition policy costing- VAT for Private Schools - Labour Party](#) (PDF), January 2024

<sup>40</sup> For some commentary on this process see Sam Friedman (@Samfr), [Twitter/X](#), 17 May 2024

<sup>41</sup> [HC Deb 29 July 2024 cc1033-1040](#)

plan to introduce 20 per cent VAT on education and boarding services provided for a charge by private schools across the UK from 1 January 2025:

Twenty per cent VAT will also apply to pre-payments of fees for terms starting on or after 1 January 2025 made on or after 29 July 2024. These changes will not impact pupils with the most acute special educational needs, where their needs can only be met in private schools.<sup>42</sup>

In a written answer the following day Mr Murray stated the policy was “a tough but necessary decision that will secure additional funding to help deliver the government’s commitments relating to education and young people, including opening 3,000 new nurseries, rolling out breakfast clubs to all primary schools, and recruiting 6,500 new teachers.”<sup>43</sup>

Further details of this measure were set out in a technical note [published by HM Treasury](#), which also confirmed the government’s plan to remove private schools’ eligibility for charitable rates relief under business rates in England.<sup>44</sup>

The Treasury’s note confirmed that statutory provision to make the relevant changes in VAT law would be included in the next Finance Bill, to be introduced after the 2024 Autumn Budget.<sup>45</sup> By contrast the change to business rates would be legislated for through a Local Government Finance Bill to be introduced after the Budget. The government’s intention is that this second measure will take effect from April 2025, subject to Parliamentary process.<sup>46</sup>

This document was accompanied by draft legislation for the change in VAT law and an explanatory note.<sup>47</sup> The government invited comments on both the technical note and the draft legislation by 15 September 2024. In the event the government received 17,502 responses from a range of tax specialists, parents, schools, bodies that represent private schools, and others. Over the consultation period the Exchequer Secretary and government officials held a series of meetings “with key stakeholders representing schools, local authorities (LAs) and Devolved Governments.”<sup>48</sup>

In answer to a PQ on the timing of this consultation exercise Exchequer Secretary James Murray noted it gave schools 6 weeks to prepare a

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<sup>42</sup> [WS32 \[HM Treasury update\]](#), 29 July 2024

<sup>43</sup> [PQ1809](#), 30 July 2024

<sup>44</sup> HM Treasury (HMT), [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024. See also, “UK private schools face VAT charge from January 2025”, *Financial Times*, 29 July 2024

<sup>45</sup> [As above](#) para 5.5

<sup>46</sup> [As above](#) para 5.6. For more details see, Commons Library research briefing CBP5222 [Independent schools: taxation and charitable status](#), 4 October 2024 (see section 1.6: Business rates relief).

<sup>47</sup> HMT, [Removal of VAT exemption for private school fees: draft legislation](#), (PDF) July 2024; HMT, [Removal of VAT exemption for private school fees: explanatory note](#), (PDF) July 2024. For commentary on the draft legislation see “VAT on private school fees: 10 takeaways”, *Tax Journal*, 2 August 2024; “Taxing times for schools”, *Taxation*, 5 September 2024.

<sup>48</sup> HM Treasury, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief: Summary of Responses](#) (PDF) October 2024 para 1.4-5

consultation response, including around 2 weeks from the end of the school holidays. He went on to add, “it is important that the consultation closed on 15 September to provide enough time to analyse responses and consider any changes to the draft legislation ahead of Budget.”<sup>49</sup>

Generally HMRC publish an impact assessment for all tax policy changes - a ‘[tax information and impact note](#)’ - when the policy is final or near final. This is usually at the time of the Budget in advance of the publication of the Finance Bill. In this case the government confirmed it would publish a tax information and impact note on the removal of this VAT exemption at the Budget on 30 October 2024.<sup>50</sup> It also confirmed that prior to 1 January 2025 HMRC would publish bespoke guidance products on Gov.uk, update registration systems, and put additional resource in place to help process applications by schools that will need to account for VAT on fees.<sup>51</sup>

The government has also been asked for details of the approach taken in other countries to imposing VAT or an equivalent tax on school fees. In answer to a PQ in October the Financial Secretary Lord Livermore noted the following:

Structural differences in countries’ education systems mean that there are limited meaningful comparisons that can be drawn between the UK and other nations. For example, comparatively high fees in the UK mean that private school participation in the UK is particularly concentrated in the wealthiest families relative to countries such as Germany, France, or the US.<sup>52</sup>

## The approach to extending VAT on school fees

The Treasury’s technical note explains that VAT will apply to all education services and vocational training supplied by a private school, or by a ‘closely connected person’. The inclusion of ‘closely connected persons’ is to prevent private schools seeking to retain VAT relief by contracting out their services to another body that still met the eligibility criteria for VAT exemption.<sup>53</sup> VAT will also apply to boarding and lodging closely related to private schools’ provision of these supplies. This change will affect private schools across the UK. While education policy is devolved, VAT is a reserved tax and these VAT changes are to apply uniformly across the UK.<sup>54</sup>

In this context ‘private schools’ are schools 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), or an institution at which full-time education is provided for persons over compulsory school age but under 19 and which is principally concerned with providing education suitable to the requirements of such persons (for

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<sup>49</sup> [PQ4622](#), 17 September 2024

<sup>50</sup> [PQ HL260](#), 1 August 2024; [PQ1649](#), 2 August 2024

<sup>51</sup> [PQ2834](#), 9 September 2024.

<sup>52</sup> [HL PQ1666](#), 29 October 2024

<sup>53</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 2.8

<sup>54</sup> [As above](#) para 2.5. see also, [PQ10664](#), 28 October 2024. For a technical discussion of the treatment of boarding see “VAT landscape for private schools”, Taxation, 6 February 2025.



example, a sixth form college), and where fees or other consideration are payable for that provision of full-time education.<sup>55</sup>

Subsequently ministers have underlined that the extension of VAT to school fees will include “independent schools, part-funded by overseas governments, bi-lingual schools, and faith schools.”<sup>56</sup> It will also include “music schools, dance schools, Centres for Advanced Training, and tuition centres where they charge fees for full-time education for pupils of compulsory school age.”<sup>57</sup> Ministers have underlined that the teaching of English as a foreign language will not be affected by this measure.<sup>58</sup> They have also clarified the point that “the new VAT charge will apply to education and vocational training provided either at sixth forms attached to private schools or standalone private sixth form colleges” whereas “education and vocational training provided by further education colleges, which are classified as public sector institutions, will not be subject to VAT.”<sup>59</sup>

VAT will become liable on fees for children in the first year of primary school in a private school upwards. Nurseries are to remain exempt.<sup>60</sup>

It is not proposed to extend VAT to certain other goods and services that private schools provide, and which are an integral part to children accessing education, such as school meals, transport, books and stationery:

This reflects that the government considers the risk of schools artificially assigning greater value to closely related goods and services, rather than education and boarding fees, in order to limit the amount of VAT they are charging parents and carers (sometimes referred to as “value shifting”) to be low. HMRC will challenge any school who seeks to avoid their full VAT liability in this, or any other, way.<sup>61</sup>

## Date of implementation and treatment of prepaid fees

The implementation date for extending VAT on school fees is 1 January 2025. There have been concerns raised about the potential impact of this starting date.<sup>62</sup> In answer to a PQ on this decision Exchequer Secretary James Murray has said, “a start date of January 2025 will have given schools and parents 5 months to prepare for the changes, and it is right that we introduce these changes as soon as possible in order to raise the funding needed to help

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<sup>55</sup> [As above](#) para 2.6

<sup>56</sup> See, for example, [PQ6011](#), 14 October 2024

<sup>57</sup> See, for example, [PQ2829](#), 9 September 2024

<sup>58</sup> See, for example, [PQ1651](#), 2 August 2024

<sup>59</sup> [PQ8877](#), 22 October 2024. See also, [PQ8846](#), 17 October 2024; [PQ9625](#), 23 October 2024; [PQ13459](#), 14 November 2024.

<sup>60</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 2.9

<sup>61</sup> [As above](#) para 2.13

<sup>62</sup> For example, “Private school leaders demand more time from Treasury over VAT”, Times, 20 August 2024; “Mid-year start for VAT on school fees is ‘cruel and punitive’”, Times, 8 September 2024; Independent Schools Council press notice, [‘Slow down’ VAT plans to avoid disrupting pupils’ education, ISC CEO urges ministers](#), 7 October 2024

deliver our education priorities.”<sup>63</sup> Following the launch of the government’s consultation the Chartered Institute of Taxation (CIOT) argued that implementation should be delayed to take effect from the start of the next school year, to give affected businesses the time to understand the scope of the changes and prepare accordingly – a point they reiterated in a short submission following the Budget.<sup>64</sup>

Any fees that have been paid from 29 July 2024 pertaining to the term starting in January 2025 will be subject to VAT. Generally when businesses are providing services subject to VAT, the date at which VAT becomes liable – the ‘tax point’ – is when that service is performed.<sup>65</sup> However, there are circumstances when the tax point may be before this, as the government’s technical note explains:

The VAT treatment of goods and services follows the policy that is in place at the time of the “tax point”. For services, the basic tax point is the date when the service is performed. However, this can be overridden by either payment for the service being made, or a VAT invoice being issued, before the date at which the service is performed. Therefore, if either a payment is made, or a tax invoice is issued, before the date at which the service is performed, the date of the payment or the date of the tax invoice can become the tax point.<sup>66</sup>

Clearly this has potential implications for extending VAT on school fees parents could face different VAT liabilities for fees in respect of the same term based on when they paid those fees.

The government set out its approach to prevent this. The legislation to extend VAT to school fees would have retrospective effect to provide that fees paid from 29 July 2024 pertaining to the term starting in January 2025 onwards to be subject to VAT:

This will protect Exchequer revenue by allowing HMRC to collect VAT incurred on fees paid in the period between the date this policy is announced and the Finance Bill receiving Royal Assent. It will also help to ensure parity of treatment between parents and carers who may otherwise seek to pay 15 multiple years’ worth of fees upfront in the period between this policy being announced and it taking effect, and those parents and carers for whom that is not a viable option.<sup>67</sup>

The government went on to argue that it was fair to set 29 July 2024 as the date for the new law to have effect as “it is on this date that the details of this

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<sup>63</sup> [PQ6308](#), 14 October 2024. The issue was the subject of a short debate in the House of Lords at this time ([HL Deb 17 October 2024 cc293-304](#)).

<sup>64</sup> For details see, CIOT, [VAT on Private School Fees and Removing the Charitable Rates Relief for Private Schools](#), 16 September 2024; and, [Finance Bill 2024-25 briefing - VAT: Removal of exemption for private school fees](#), 2 December 2024.

<sup>65</sup> HMRC, [VAT guide \(VAT Notice 700\)](#), updated 23 September 2023 (see section 14)

<sup>66</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 2.29

<sup>67</sup> [As above](#) para 2.30

policy change were made clear to taxpayers, and draft legislation was published.”<sup>68</sup>

Many schools offer payment plans to allow parents to pay fees in advance. Following the Labour Party’s announcement about its policy, it appears a number of schools were offering schemes with a view to avoiding any VAT charge on future fees.<sup>69</sup> In its consultation document the government noted that it was highly likely these schemes would not deliver the desired result:

The government is aware that, whilst many schools have always offered schemes enabling pre-payment of fees, there have been reports of increased numbers of parents utilising such schemes recently in an attempt to avoid these fees being subject to VAT. In many cases, the structure of these schemes means that the tax point has not yet been passed.

For instance, if 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’ fees that had already been set), HMRC stands ready to challenge the validity of such payments and will seek to collect VAT on those fees where it is due [...]

HMRC will be carefully scrutinising the detail of these schemes to ensure that schools pay the correct VAT where it is due.<sup>70</sup>

Writing in the Tax Journal Etienne Wong (a barrister at Old Square Tax Chambers) underlined this section of the note, adding “the fact that a payment falls outside the window prescribed in the anti-forestalling provisions, therefore, does not guarantee the preservation of the existing (exempt) VAT treatment or that the ‘early’ payment will escape HMRC scrutiny.”<sup>71</sup>

## Pupils with special educational needs

There has been a lot of concern about the potential impact of this reform for pupils with special educational needs.<sup>72</sup> The government’s position has been that this reform will not affect pupils with the most acute needs which can only be met in private schools. Usually in this situation a pupil’s place is funded by their local authority (LA), which will have specified the school in question in that child’s Education, Health and Care Plan (EHCP).<sup>73</sup> LAs will be

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<sup>68</sup> [As above](#) para 2.31

<sup>69</sup> “Private schools bolster advance payment schemes ahead of Labour tax changes”, Financial Times, 9 May 2024

<sup>70</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 2.32. Dan Neidle at the Tax Policy Associates think tank has written on the potential risks for parents using pre-payment schemes (see, “[Avoiding VAT on school fees - a bad idea](#)” and “[Avoiding VAT on school fees - the risks parents and schools are taking](#)”, Tax Policy Associates, 26 January and 9 May 2024).

<sup>71</sup> “VAT on private school fees: 10 takeaways”, Tax Journal, 2 August 2024

<sup>72</sup> For example, [PQ895](#), 30 July 2024; [PQ2411](#), 5 September 2024.

<sup>73</sup> For more details on this procedure for providing support for special educational needs in England see, Commons Library research briefing CBP7020, [Special Educational Needs: support in England](#).

able to reclaim any VAT cost associated with this aspect of their activities, under the general VAT refund scheme that LAs can use.<sup>74</sup>

The technical note discusses this issue at some length.<sup>75</sup> It also addresses the fact that those parents whose child's needs could be met in the state sector, but have placed their child in a private school out of choice, will be liable to pay VAT on their child's school fees.<sup>76</sup>

Exchequer Secretary James Murray has underlined the point that the fees of pupils waiting for an EHCP will be subject to VAT. In his answer to a PQ on this issue, the Minister went on to make these observations:

However, LAs aim to process all EHCP applications in time for the start of the next school year so that parents can make an informed decision as to which school they send their child to. In certain circumstances, the LA is able to prepay one term's fees if the EHCP is not yet complete, but the outcome is foreseeable. Likewise, some private schools will forgo the first term's fees for pupils that are expected to be granted an EHCP in the future.<sup>77</sup>

## The treatment of bursaries

On 10 October 2024 HMRC published guidance on how some payments and situations relating to education will be treated for VAT.<sup>78</sup> Initially this was based on the technical consultation and draft legislation, and has been updated since then.

HMRC's guidance makes the general point that "VAT will be due on the total of everything that is received in return for providing education to the student. For example, this may include the amount paid by the parent, as well as any external bursary that may be paid for the education of that student."<sup>79</sup> It goes on to address the VAT treatment of bursary payments in more detail:

VAT will apply to the total value that is received in return for the education the school provides to the student. The school will account for VAT on the total amount of the fee charged for the education, even if this is made up by both the parent's payment and a separate bursary paid for that child. For example, VAT will be chargeable on 100% of a fee if:

- a school receives a bursary payment for a specific child that accounts for 30% of the total chargeable fee

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<sup>74</sup> [Section 33 of the VAT Act 1994](#) provides relief from VAT to local authorities on VAT bearing costs which would not otherwise be refundable. For details see, HMRC, [Local authorities and similar bodies \(VAT Notice 749\)](#), September 2024.

<sup>75</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 2.19-27

<sup>76</sup> [As above](#) para 2.28. see also, Department for Education, [VAT on private schools: Everything you need to know – The Education Hub blog](#), 6 September 2024.

<sup>77</sup> [PQ3155](#), 12 September 2024. See also, [PQ4622](#), 17 September 2024

<sup>78</sup> HMRC, [Charging and reclaiming VAT on goods and services related to private school fees](#), updated 27 January 2025

<sup>79</sup> [As above](#) (Overview)

- the parent of the child pays the remaining 70% of the fee

When a school provides a bursary payment to itself, the payment will be outside the scope of VAT.<sup>80</sup>

There have been concerns raised about the potential impact of extending VAT on school fees for children in receipt of bursaries and scholarships. In answer to a PQ on this topic, Stephen Morgan, Parliamentary Under-Secretary at the Department for Education made the following comments:

The department is not expecting these changes to have a significant effect on bursaries across the private school sector as a whole. The department expects that charitable schools across the UK will want to continue to demonstrate wider public benefit through the provision of means-tested bursaries and through partnerships with state-funded schools after these changes are made.<sup>81</sup>

## Discussion of the impact on fees and school choices

As of January 2024, there were 2,421 registered independent schools in England.<sup>82</sup> There were a further 90 registered independent schools in Scotland (October 2024),<sup>83</sup> 83 in Wales (September 2024),<sup>84</sup> and 14 in Northern Ireland (October 2023).<sup>85</sup>

During the consultation period ministers reiterated that the government would publish its assessment of the impact of extending VAT on school fees at the time of the Budget.<sup>86</sup>

However the Treasury's technical note had a short section on the policy's potential impact, to provide schools, parents and other interested parties what effect this measure may have in practice.

First, as any VAT-registered business, private schools will be able to offset VAT paid on goods and services they purchase in making their taxable supplies (their input tax) against the VAT they charge on those supplies (their output tax).<sup>87</sup>

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<sup>80</sup> [As above](#) (VAT on goods, services and payments)

<sup>81</sup> [PQ4422](#), 12 September 2024

<sup>82</sup> Department for Education, [Schools, pupils and their characteristics: January 2024](#), published 6 June 2024 ([custom table](#)). See also, [PQ12042](#), 7 November 2024.

<sup>83</sup> Scottish Government, [Independent schools in Scotland: register](#), updated 2 October 2024

<sup>84</sup> Welsh Government, [Consultation on charitable non-domestic rates relief for private schools](#), 23 September 2024

<sup>85</sup> Northern Ireland Statistics and Research Agency, [Annual enrolments at schools and in funded pre-school education in Northern Ireland 2023-24](#), updated March 2024, p23

<sup>86</sup> [PQ2809](#), 9 September 2024; [PQ10422](#), 28 October 2024

<sup>87</sup> In this context the Chartered Institute of Taxation (CIOT) has noted that while private schools will be entitled to offset their input tax, "a typical school spends more than half its money on teachers and other staff – and there is no VAT to reclaim on salaries" (CIOT, [Tax treatment of private schools – an explainer](#), 21 June 2024).

As a result, the government anticipate that schools will be liable for VAT amounting to around 15% of their fee income.<sup>88</sup>

Second, it is expected that schools will explore options for funding this cost, so as to minimise the impact on fees: such as reducing their surpluses or reserves, or cutting back on non-essential expenditure.<sup>89</sup>

The paper acknowledges that some parents will decide to move their children to the state education sector. It argues that this will represent a very small proportion of overall pupil numbers, and this will not have a significant impact on the state education system as a whole.<sup>90</sup> Stephen Morgan, Parliamentary Under-Secretary at the Department for Education, addressed the issue in answer to a PQ in September:

While the impact of this policy is being fully considered, research by the Institute for Fiscal Studies indicates that the number of pupils who may switch schools as a result of these changes is likely to represent a very small proportion of overall pupil numbers in the state sector, with any displacement expected to take place over several years [...]

While the department cannot be certain of the precise level, if any, of transfer from private to state sectors additional to the movements between schools, and between the private and state sectors, which happen each year in all parts of the country. The department will be monitoring demand and capacity using our normal processes and working with local authorities to meet any pressures.<sup>91</sup>

The government's position on this issue was set out in more detail by Education Minister Baroness Smith of Malvern, in a letter following a debate on this issue in the House of Lords on 5 September.<sup>92</sup> The potential impact of this policy has also been the subject of two recent debates in the House of Commons.<sup>93</sup>

The Treasury's technical note also observed that in certain circumstances the government provides financial assistance for private school fees of children of UK military personnel and UK diplomatic officials through the Continuity of Education Allowance (CEA). It stated that the government would "monitor

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<sup>88</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 4.5

<sup>89</sup> [As above](#) para 4.5

<sup>90</sup> The paper suggests that "even if pupil displacement is somewhat above the Institute for Fiscal Studies' estimated range of up to 40,000, this is still likely to represent less than 1% of total UK state school pupils of more than 9 million." [As above](#) para 4.8. see also, [PQ2830](#), 9 September 2024; "State schools have enough space for exodus of private pupils", Financial Times, 18 June 2024.

<sup>91</sup> [PQ2830](#), 9 September 2024. See also, [PQ12042](#), 7 November 2024.

<sup>92</sup> [HL Deb 5 September 2024 cc1296-1348](#). For details see, Department for Education, [Letter from Baroness Smith of Malvern to Lord Alton of Liverpool regarding issues raised during the debate on Independent Schools: VAT Exemption](#), Deposited paper (DEP2024-0622), 12 September 2024. See also, [PQ HI 909](#), 7 October 2024; House of Lords Library, [Independent schools: proposed VAT changes](#), 14 October 2024.

<sup>93</sup> [HC Deb 8 October 2024 cc1-28WH](#); [HC Deb 8 October 2024 cc164-225](#). For some recent press comment see, "VAT on school fees: 'We have had to make the decision to pull her out'", Financial Times, 15 November 2024.

closely the impact of these policy changes on affected military and diplomatic families, with the upcoming Spending Review being the right time to consider any changes to this scheme.”<sup>94</sup>

In her statement on the public finances in July 2024, the Chancellor Rachel Reeves announced the launch of the government’s Spending Review, and stated that it would conclude in Spring 2025.<sup>95</sup> Concerns have continued to be raised about the impact on service personnel whose children attend private schools.<sup>96</sup> However, ministers have given no indication that the government is considering any special exemption.<sup>97</sup>

## The European Convention on Human Rights

There have been concerns that the extension of VAT to private school fees could be subject to a legal challenge on the grounds that it potentially contravened the European Convention on Human Rights.<sup>98</sup>

In a debate in the House of Lords on 8 September 2024 Lord Alton (Crossbench) suggested that this measure might breach “Article 2 of the First Protocol read on its own (access to educational facilities) or with Article 14 of the Convention (arbitrary discrimination in the enjoyment of educational facilities).”<sup>99</sup> On this occasion Education Minister Baroness Smith of Malvern stated the government were confident that the measures were compatible with these obligations.<sup>100</sup>

The minister addressed the point at more length in a letter she sent following the debate; an extract is reproduced below:

As I stated in the debate, legal considerations have been incorporated into the process, as is standard for all legislative changes, and we are confident that the proposed measures are compatible with the UK’s human rights obligations. I can confirm that the ECHR, including the extent to which Article 2 and Article 14 are engaged by the proposed tax changes, has been carefully considered.

We believe that the tax proposals are a proportionate policy to meet the justified aim of improving public services, including state-funded education. The policy does not deny the right to education and the State is not under an obligation to subsidise. We also do not believe the proposals are

<sup>94</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 4.11. see also, [PQ HL598](#), 16 September 2024; [PQ3666](#), 9 September 2024; [PQ2152](#), 3 September 2024

<sup>95</sup> [HC Deb 29 July 2024 cc1033-1040](#); HMT, [Fixing the foundations: Public spending audit 2024-25](#), CP 1133 (PDF) July 2024 para 11. See also, [PQ HL886](#), 20 September 2024

<sup>96</sup> See, for example, “Military families warn of exodus over private school VAT”, Times, 28 October 2024

<sup>97</sup> [PQ HL1155](#), 21 October 2024; [PQ HL1255](#), 21 October 2024

<sup>98</sup> “Labour’s private school tax raid ‘likely illegal’”, Daily Telegraph, 28 June 2024; “I’m taking legal action over school VAT for my daughter’s sake”, Times, 8 September 2024. For more details on the Convention see, Commons Library research briefing CBP9958, [The European Convention on Human Rights and the Human Rights Act 1998](#), 6 February 2024.

<sup>99</sup> [HL Deb 5 September 2024 c1302](#). Lord Alton was quoting the views of Lord Pannick who was unable to attend the debate. The concern was also raised by Lord Hacking ([As above](#) c1319).

<sup>100</sup> [As above](#) c1345

discriminatory, as it is a general measure of economic strategy that is proportionate to the aim pursued.

The Government is carefully considering responses to the technical consultation and will appropriately consider and respond to any challenge received. We are keeping the human rights analysis under review and would not be progressing these measures if we considered that there was a risk that they were not compatible with the UK's human rights obligations.<sup>101</sup>

Since then ministers have reiterated the government's position on a number of occasions.<sup>102</sup>

Following the government's confirmation of its plans in the Autumn 2024 Budget, the Independent Schools Council (ISC) announced that it would launch a legal challenge on these grounds.<sup>103</sup> Subsequently the ISC has confirmed that its legal challenge is to be heard in the High Court between 1 and 3 April 2025.<sup>104</sup>

On 2 January 2025 Lord Alton, chair of the Joint Committee on Human Rights, wrote to the Chancellor about the potential for this change in VAT to impact human rights, specifically in relation to the right to education guaranteed under Article 2 of Protocol 1 to the ECHR, and freedom from discrimination under Article 14 ECHR. The committee were particularly concerned about the rights of children with special educational needs and those whose parents serve in the military or the diplomatic service.<sup>105</sup>

In this context, Lord Alton noted that generally the government publishes an analysis of the human rights issues raised in legislation it has introduced, either in the explanatory notes of a bill or in a separate European Convention on Human Rights (ECHR) memorandum. However, no such analysis is provided with a Finance Bill.<sup>106</sup>

The Exchequer Secretary James Murray sent a reply on 29 January 2025, setting out the government's position in some detail. Two extracts are reproduced below.

First, the minister set out the government's view that the relevant clause in the [Finance Bill which was introduced following the Autumn 2024 Budget](#) (that

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<sup>101</sup> [HL Deb 5 September 2024 cc1296-1348](#). For details see, Department for Education, [Letter dated 12/09/2024 from Baroness Smith of Malvern to Lords regarding whether the proposed changes to VAT might contravene the European Convention on Human Rights \(ECHR\)](#), 12 September 2024.

<sup>102</sup> See, for example, [PQ HL 841](#), 18 September 2024; [PQ 5989](#), 14 October 2024. Dan Neidle at the Tax Policy Associates think tank has also written on the issue (Dan Neidle @DanNeidle, [Twitter/X](#), 28 June 2024; and, [Twitter/X](#), 8 September 2024).

<sup>103</sup> Independent Schools Council press notice, [ISC to take legal action against VAT on fees policy](#), 1 November 2024. See also, "Independent schools to sue over Labour's VAT on school fees", Times, 31 October 2024; "[Private schools to take legal action against planned VAT on fees](#)", Guardian, 31 October 2024.

<sup>104</sup> ISC press notice, [VAT on fees: Date set for ISC's case in the High Court](#), 29 January 2025

<sup>105</sup> Joint Committee on Human Rights, [Correspondence from the Committee to the Chancellor of the Exchequer at HM Treasury](#), (PDF) 6 January 2025.

<sup>106</sup> [As above](#)



is, clause 47 of the bill) did not engage Article 2 of Protocol 1 (“A2P1”), the right to education:

A2P1 does not oblige Contracting States to the ECHR to establish at their own expense, to subsidise, or to ensure the affordability of private education or education at or by a particular institution. This has been consistently confirmed in case law (see, e.g., *R (ex p. Begbie) v Secretary of State for Education and Employment* [2000] 1 WLR 1115, at 1128, *Belgian Linguistic case* (No. 2) (1968) 1 EHRR 252 and *S, T and P v Brent London Borough Council* [2002] ELR at 9).

The right to a state-funded school place is unaffected by the changes to VAT in clause 47. This includes the rights of any child with special educational needs (“SEN”) or any child whose parents serve in the military or in the diplomatic service.<sup>107</sup>

Even if A2P1 was engaged, the very essence of the right was not impaired because these changes were “plainly justified and proportionate”:

The measure falls well within the margin of appreciation given to Contracting States. The changes made by this measure do not affect the application of obligations imposed in relation to A2P1 and nothing in A2P1 precludes a tax measure being taken on the basis that it may result in an increase in fees charged by a private school (*Begbie*).

Collecting tax to deliver the Government’s commitments, which includes improving state education, constitutes a legitimate aim that is in the public interest, and removing VAT exemption from private school education is a proportionate means of achieving that legitimate aim. The measure does not impair the essence of A2P1 as obligations imposed on the State by that right in relation to the provision of education remain in place. The state sector can and does provide education in a manner compliant with A2P1.<sup>108</sup>

Second, the minister argued that Article 14 was not engaged, and that, even if it was, these changes did not violate that right:

Article 14 enshrines the right not to be discriminated against in “the enjoyment of the rights and freedom set out in the Convention” and therefore is not a freestanding right. For the reasons given above, the Government’s view is that the measure does not fall within the ambit of A2P1 and Article 14 is therefore not engaged in respect of it.

Even if Article 14 is engaged, the measure does not violate that right, because there is no relevant difference of treatment or discrimination in relation to the categories of children identified by the Joint Committee—

- a. For children with SEN, there is a pre-existing legislative scheme set out in Part 3 of the Children and Families Act 2014 which is unchanged by the measure. This regime contains a range of safeguards and sets out the obligations which both state schools and Local Authorities (“LAs”) must comply with to ensure the right support is in place.

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<sup>107</sup> Joint Committee on Human Rights, [Correspondence to the Committee from the Exchequer Secretary to the Treasury](#), (PDF) 29 January 2025 para 2

<sup>108</sup> [As above](#) para 3

For example, there are obligations on LAs in relation to assessing and meeting a child's needs, which could include an obligation to pay the fees for private school education where necessary (and the LA can then claim a refund of any VAT charged to it). Parents have a right of appeal against decisions made by the LA to the First-tier Tribunal in these respects.

b. Children whose parents serve in the military or diplomatic service have no protected "status" for the purposes of Article 14 by which discrimination could be established.<sup>109</sup>

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<sup>109</sup> Joint Committee on Human Rights, [Correspondence to the Committee from the Exchequer Secretary to the Treasury](#), (PDF) 29 January 2025 para 4-5

## 3 2024 Autumn Budget

### 3.1 The Chancellor's Budget statement

The Chancellor Rachel Reeves presented the 2024 Autumn Budget on 30 October 2024. As part of her Budget speech the Chancellor confirmed the government's plans to introduce VAT on private school fees from January 2025, and to introduce legislation to remove charitable rate relief from private schools from April 2025.<sup>110</sup> It is estimated that this will raise £460 million in 2024/25, rising to £1.51 billion in 2025/26.<sup>111</sup> The withdrawal of charitable rate relief is forecast to raise £70-£90 million a year.<sup>112</sup>

Provision to this effect is included in the [Finance Bill 2024-25](#) which was introduced on 6 November 2024 (specifically clauses 47-49 of the Bill).

As discussed in the previous section of this briefing, a series of concerns had been raised about the potential impact of extending VAT to private school fees. The Budget report noted the government's response to two of these.

First, in the case of pupils whose special educational needs could only be met by their being in a private school, the Budget report stated that "local authorities and devolved governments that fund these places will be compensated for the VAT they are charged on those pupils' fees."<sup>113</sup>

The Budget report also addressed concerns about the financial support provided to diplomatic staff and military personnel with children in private education, through the Continuity of Education Allowance (CEA):

Ahead of the VAT changes on 1 January, the MOD and the FCDO will increase the funding allocated to the CEA to account for the impact of any private school fee increases on the proportion of fees covered by the CEA in line with how the allowance normally operates. The MOD and FCDO will set out further details shortly.<sup>114</sup>

<sup>110</sup> [HC Deb 30 October 2024 c821](#)

<sup>111</sup> Autumn Budget 2024, HC 295 (PDF) October 2024 [p117 \(Table 5.1 – item 22\)](#). The OBR note that this is estimated to raise £1.7 billion in 2029/30 (Economic and Fiscal Outlook, CP 1169 (PDF) October 2024 [para 3.36](#)). see also, HMT, [Autumn Budget 2024 Policy Costings. \(PDF\) October 2024 p34](#)

<sup>112</sup> [As above \(Table 5.1 – item 23\)](#).

<sup>113</sup> [As above para 5.68](#)

<sup>114</sup> [As above para 5.68](#). See also, [PQ 26041 / PQ 26042](#), 28 January 2025, and [PQ 28539](#), 10 February 2025; [HL Deb 5 February 2025 cc683-5](#).

Further details were set out in the government’s response to the technical consultation launched in July.<sup>115</sup> This is discussed in section 3.3 of this briefing.

Following the Budget HMRC has published updated guidance for schools on whether they need to register for VAT,<sup>116</sup> and how schools should charge and reclaim VAT on goods and services related to private school fees.<sup>117</sup> HMRC has also published further guidance on the conditions under which VAT can be reclaimed on goods purchases prior to their being VAT-registered.<sup>118</sup> Schools, their representative bodies and tax advisors can contact HMRC for technical queries about registering for, charging and remitting VAT.<sup>119</sup> In answer to a PQ on 20 December 2024 Exchequer Secretary James Murray noted that “currently more than 80% of VAT registration applications are being processed within 20 working days, exceeding HMRC’s published service standard of 80% within 40 working days.”<sup>120</sup>

The Budget report also confirmed the withdraw of charitable rate relief from private schools from April 2025. It underlined the point that private schools which were ‘wholly or mainly’ concerned with providing full time education to pupils with an Education, Health and Care Plan would remain eligible for relief.<sup>121</sup>

## The Office for Budget Responsibility’s assessment

In their Economic and Fiscal Outlook published alongside the Budget, the Office of Budget Responsibility (OBR) consider the degree to which schools will pass on the cost of VAT in higher fees, and, in turn, the impact this may have on student numbers, and on extra government spending on state schools. The OBR forecast that as schools will be able to recover some input costs “the effective VAT rate applied will be 15.4%.” They estimate that two-thirds of the cost will be passed on in higher fees, just less than a quarter is reflected in reduced service provision, and the remainder is absorbed through cost efficiencies and from profits.<sup>122</sup>

<sup>115</sup> HM Treasury, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief: Summary of Responses](#) (PDF) October 2024

<sup>116</sup> HMRC, [Check if you must register for VAT if you receive private school fees](#), updated 4 March 2025

<sup>117</sup> HMRC, [Charging and reclaiming VAT on goods and services related to private school fees](#), updated 27 January 2025. For a critique of this see, “Could do better”, Taxation, 7 November 2024. See also, [PQ 36126](#), 13 March 2025; [PQ 29755](#), 20 February 2025.

<sup>118</sup> HMRC, [VAT Input Tax Manual](#), para [VIT32000](#) (retrieved 18 March 2025). See also, HMRC, [Treatment of VAT incurred on assets that are used by the business prior to VAT registration Brief 16\(2016\)](#), 4 November 2016; [PQ 36554](#), 13 March 2025.

<sup>119</sup> They are advised to email HMRC at: [vatonprivateschoolfees@hmrc.gov.uk](mailto:vatonprivateschoolfees@hmrc.gov.uk). See, HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 para 6.11.

<sup>120</sup> [PQ20009](#), 20 December 2024

<sup>121</sup> HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 [para 5.69](#). Provision to this effect would be made by the [Non-Domestic Rating \(Multipliers and Private Schools\) Bill 2024-25](#), which was introduced on 11 November 2024.

<sup>122</sup> OBR, Economic and Fiscal Outlook, CP 1169 (PDF) October 2024 [para 3.38](#)

The OBR forecast that the policy will result in around 35,000 fewer private school pupils, “reflecting both leavers and, primarily, fewer new joiners.”<sup>123</sup> This represents 6 per cent of the current number of private school pupils in the UK. In forecasting the impact that higher fees may have on the demand for private school places, the OBR used an estimated price elasticity of demand of 0.5 which is the higher end of the range estimated in the IFS’ assessment published in July 2023:

Use of the higher end recognises that some other studies conclude the behavioural response could be higher, though these mainly consider private school demand in the US and therefore are less applicable to the UK. We assume that the elasticity will be lower for existing students, as parents will be more reluctant to disrupt their education, than for prospective future new students.<sup>124</sup>

The OBR go on to note that the cost of 35,000 additional state sector pupils would be around £0.3 million.<sup>125</sup> However the actual cost would depend on a wider set of factors:

These include overall trends in total pupil numbers and the ability of state schools to absorb additional pupils from the private sector, which is likely to vary across regions. The changes could also affect costs to local authorities related to the provision of education for pupils with Education, Health and Care Plans.<sup>126</sup>

## 3.2

## HMRC’s impact assessment

As anticipated, HMRC published impact assessments on individual tax measures announced in the Budget.<sup>127</sup> This included its assessment of extending VAT to private school fees.<sup>128</sup>

### Proposed revisions to the law

[Group 6 of schedule 9 of VATA 1994 provides for the VAT-exemption of education.](#) Item 1 of group 6 provides that the provision of education, research or vocational training by an “eligible body” is exempt from VAT.

<sup>123</sup> [As above](#)

<sup>124</sup> [As above](#). For the IFS’ assessment see, Luke Sibieta, [Tax, private school fees and state school spending](#), Institute for Fiscal Studies, (PDF) 11 July 2023 (pp20-21)

<sup>125</sup> This estimate is based on a £7,690 per pupil cost in England. £7,690 is the 2024-25 per-pupil funding allocated to schools for 5-16 year olds (Department for Education, School funding statistics, January 2024).

<sup>126</sup> OBR, Economic and Fiscal Outlook, CP 1169 (PDF) October 2024 [para 3.39](#). The OBR discuss pressures on local government with regards to spending for special educational needs at disabilities at [para 5.40-2](#) of the EFO.

<sup>127</sup> These are collated in HMRC, [Overview of tax legislation and rates](#), October 2024.

<sup>128</sup> HMRC, [Applying VAT to private school fees](#), 30 October 2024

[Clause 47 of the Finance Bill 2024-25 \(PDF\)](#) would add a new part to schedule 9. This would classify three supplies as exemption to the exemption:

- the provision of education by a private school,
- the provision of vocational training by a private school and,
- the provision of board and lodging which is closely related to a supply of the education provided by a private school.

In effect this change would mean these supplies would become liable to VAT. This amendment would leave the current exemption for the supply of goods and services closely related to a supply of education or vocational training, other than boarding, in place.<sup>129</sup>

[Clause 48 of the Finance Bill 2024-25 \(PDF\)](#) is an ‘anti-forestalling’ provision to capture pre-payment of fees made from 29 July 2024. When a change in tax policy is announced ahead of its implementation date, it provides a window in which firms or individuals could change the timing of their behaviour to minimise the tax they will pay. When this relates to pre-announced tax rises that provide an incentive for taxpayers to bring activity forward to avoid paying tax at a higher rate it is known as ‘forestalling’.<sup>130</sup> This is why governments often include provision in tax legislation to subvert forestalling activities that seek to subvert the policy intention of a specific change.

HMRC’s assessment states that the impact of this provision will be that “if a private school invoices or takes payment on or after 29 July 2024, but before 30 October, and this relates to the school term starting on or after 1 January 2025, VAT will be due on the first day of that term.”<sup>131</sup>

As noted above, when the government published its proposals in July, it underlined that HMRC would challenge the legality of pre-payment schemes which sought to avoid the new VAT charge.<sup>132</sup> There have been reports that some parents may have entered these schemes despite this warning.<sup>133</sup>

[Clause 49 of the Finance Bill 2024-25 \(PDF\)](#) provides for the commencement of the previous two provisions. The legislation to extend VAT to private school fees will have effect on 30 October 2024, though it will apply in respect of

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<sup>129</sup> As noted above, this exemption is set out in item 4 of Group 6 to Schedule 9.

<sup>130</sup> OBR, [Forestalling ahead of property tax changes - OBR working paper series no.10](#), October 2016 para 1.6

<sup>131</sup> HMRC, [Applying VAT to private school fees](#), 30 October 2024

<sup>132</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 2.32. This point is reiterated in the government’s response to the consultation (HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 para 6.19).

<sup>133</sup> “Parents who paid private school fees early risk new tax raid”, Times, 1 November 2024. Dan Neidle at the Tax Policy Associates think tank has also commented on the legal deficiency of certain pre-payment schemes (@DanNeidle, [X/Twitter](#), 2 November 2024).

terms which started on or after 1 January 2025.<sup>134</sup> If a private school invoices or takes payment from 30 October 2024 of fees in respect of terms which start on or after 1 January 2025, VAT will be due when the invoice or payment is taken.<sup>135</sup>

## Assessment of impacts

HMRC's impact assessment looks at the government's policy from a variety of perspectives: the economic impact; the impact on individuals, households and families; its equalities impacts; and the impact on business. A few extracts are reproduced below.

### School fees and school places

HMRC forecast that schools will increase fees by around 10%, though evidence to date shows considerable variation between schools. Some have fully or partially absorbed VAT costs, while others have increased their fees by as much as 20%.<sup>136</sup> HMRC forecast that imposing VAT on fees will result in 37,000 pupils leaving the independent sector in the long run, nearly all of them moving to the state sector.<sup>137</sup> It expects the vast majority of private school pupils (94%) to remain in the independent sector. In this context the government has noted that "that the majority of children attending a private school come from households that sit in the top two income deciles" and "40 per cent of children attending private schools come from the top income decile."<sup>138</sup>

Initially the state sector is expected to grow by 3,000 extra pupils in 2024/25, and will steadily rise over the long-term to 35,000 extra pupils. The revenue cost of this is forecast to peak at around £270m per year after several years.<sup>139</sup> Notably in March 2025 the Guardian reported that initial figures published by some councils in England on applications for year 7 places in state schools had not shown any substantial increase in numbers.<sup>140</sup>

<sup>134</sup> The House approved the necessary [Provisional Collection of Taxes Act motion](#) to give immediate effect to this change in the law following the Chancellor's Budget statement ([HC Deb 30 October 2024 c828](#)). For further details of this procedure see, Commons Library research briefing CBP813 [The Budget and the annual Finance Act](#), 18 November 2024.

<sup>135</sup> HMRC, [Applying VAT to private school fees](#), 30 October 2024

<sup>136</sup> HMRC, [Applying VAT to private school fees](#), 30 October 2024 ("[Economic impact: school fees](#)")

<sup>137</sup> From this cohort of 37,000, it is forecast that 2,000 will consist of international pupils who do not move into the UK state system, and domestic pupils moving into homeschooling.

<sup>138</sup> HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 para 5.11

<sup>139</sup> HMRC, [Applying VAT to private school fees](#), 30 October 2024 ("[Economic impact: pupil moves](#)"). The estate of extra costs for the state sector is based on average 2024/25 per-pupil spending in England.

<sup>140</sup> "[No exodus to state sector after VAT added to private school fees, say English councils | Private schools](#)", Guardian, 10 March 2025

## Equalities

In its analysis of the equalities impact of the policy HMRC note that the government does not hold full pupil-level data for those attending private schools in the whole of the UK:

To assess equalities impacts, the government has considered a range of data including consultation responses and data published by the Independent Schools Council (ISC). The ISC does not represent all private schools but does represent around half of the sector across the UK.<sup>141</sup>

With regard to disability HMRC state that around 18% of pupils in England have Special Education Needs and Disabilities (SEND), which is comparable to the proportion in ISC schools UK-wide (20%):

Not all SEND pupils have a disability, though it is expected that the majority would be classified as such under the Equality Act 2010. Of the pupils in ISC schools with SEND, 7% have been placed by a local authority through an Education Health and Care Plan (EHCP). This measure will not impact pupils with the most acute additional needs, where these can only be met in private schools [...]

In cases where pupils with SEND move schools as a result of this measure, there will be disruptive impacts, while their local authority puts in place measures to meet their needs. Parents or guardians of SEND pupils may experience a more significant administrative burden if they choose to move the child to a different school or apply for an EHCP (or both). However, the government estimates that only a very small minority of private school pupils (6%) will move and that most school moves will occur at natural transition points, which will reduce overall disruption.<sup>142</sup>

The potential impact on pupils from moving schools was also addressed in the government's response to its technical consultation:

The government understands that moving schools can feel challenging. However, LAs and schools do already have processes in place to support pupils moving between schools, and children move between the private sector and the state-funded sector every year.

[Analysis published by the Department for Education in 2022](#) followed six cohorts of secondary school pupils in state-funded schools in England who started Year 7 between 2010/11 and 2015/16 and were expected to reach Year 11 between 2014/15 and 2019/20 respectively. For each cohort, the number of pupils who moved school during secondary school was considerably higher than the total number of private school pupils expected to move into state schools as a result of this policy. Indeed, around 1 in 6 of the pupils who reached Year 11 in the 2018/19 academic year moved secondary school (107,900 moves by 86,700 pupils).<sup>143</sup>

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<sup>141</sup> [As above](#) ("Equalities impacts")

<sup>142</sup> [As above](#) ("Equalities impacts: Disability"). See also, [PQ 30066](#), 20 February 2025.

<sup>143</sup> HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 para 5.19



## Costs for schools and school closures

Finally, with regard to the impact on schools, HMRC expect that around 2,600 businesses will face significant administrative burdens in registering and accounting for VAT. One-off implementation costs are forecast to be around £1 million. Total annual ongoing administrative costs are forecast to be around £9 million – representing an average ongoing annual cost of £3,400 for each business, though this will vary according to each business’ size and complexity.<sup>144</sup>

HMRC expect that the policy may lead to some school closures in addition to those that are likely to happen:

Since 2000, average fees in the sector have increased by 75% in real terms while pupil numbers have remained stable, as have total school numbers. But this period has seen an average of 74 school closures and 83 new openings each year in England. This makes it difficult to assess the impact of this measure in terms of additional school closures.

In recent years, around 3% of private schools have closed each year. In the long run, we expect the cost base of the private school sector to be around 12% lower as a result of the VAT measure. This comprises both an expected 5% reduction in costs by schools to moderate fee increases per pupil and a further reduction to accommodate reduced demand (projected to be around 7% in the long term).

We expect most of this 12% reduction in costs to occur within schools rather than as a result of school closures, however it is likely that there may be some temporary increase in the schools closure rate over the normal rate during the few years after implementation.

The government estimates that this may be broadly equivalent to 100 schools in total closing over the next 3 years in addition to the normal levels of turnover, after which closures would return to historic norms.<sup>145</sup>

The government’s response to its technical consultation provides further details of the assumptions, methodology and calculations underlying the costing of the policy and the forecasts for subsequent pupil movements.<sup>146</sup>

In a Westminster Hall debate on the government’s policy on 3 March 2025 the Parliamentary Secretary to the Treasury, Torsten Bell, noted that the government had “not seen any evidence to revise our view that the overall number of extra closures will be modest—perhaps something in the order of 100 schools over three years.”<sup>147</sup>

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<sup>144</sup> HMRC, [Applying VAT to private school fees](#), 30 October 2024 (“[Impact on business including civil society organisations](#)”)

<sup>145</sup> [As above](#). See also, [PQ 35073](#), 11 March 2025; [PQ 30167](#), 20 February 2025.

<sup>146</sup> HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 ([Annex: VAT costing methodology](#))

<sup>147</sup> [HC Deb 3 March 2025 c40WH](#)

## 3.3

# The government's response to its consultation

## Amendments to be made to the legislation

Alongside the Budget report and HMRC's impact assessment, the Treasury published a summary of the responses it had received to its [consultation](#).

While the government confirmed its plans regarding VAT on private school fees and business rates charitable relief, it announced a number of amendments to the draft legislation to reform the VAT-exemption of education that it had published in July.

First, the scope of the new VAT charge would be amended to ensure a number of specific supplies and individual institutions would not be covered:

- Higher Education (HE) taught at schools that are otherwise in scope of the policy (for instance, performing arts schools) would remain exempt.
- To ensure Further Education (FE) colleges remained exempt from VAT, only institutions that are wholly or mainly concerned with providing education suitable for 16-19 year olds, and where the majority of 16-19 year old pupils are charged fees, would be within the scope of the policy.
- Independent Training Providers and Independent Learning Providers (ITPs and ILPs) would remain exempt.
- Teaching English as a Foreign Language (TEFL) courses taught by private schools, or connected persons, would remain exempt.<sup>148</sup>

Second, non-maintained special schools (NMSS) would be brought within scope of this policy, but would only be required to charge VAT on placements paid from 30 October pertaining to terms starting in January 2025 onwards.<sup>149</sup>

Third, the provision that ensured nursery classes were out of the scope of the policy would be amended. Respondents had raised the concern that the way the draft legislation had defined the term 'nursery class' had meant that it would only take one child in a nursery being above compulsory school age for the whole nursery to become within scope:

Some respondents said this was a particular issue in Scotland, where it is possible for parents to request that their child's place in a primary school be deferred for a year if they feel their child is not yet ready to attend school. It was suggested, therefore, that there could be more children above school age

<sup>148</sup> HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 para 1.7. see also, [PQ HL1964](#), 7 November 2024

<sup>149</sup> [As above](#)

in a nursery attached to a private school in Scotland than elsewhere in the UK.<sup>150</sup>

The government proposed that the definition would be “a class that is composed wholly (or almost wholly) of children who are under compulsory school age or, in Scotland, school age, and would not be expected to attain that age while in that class”.

Therefore, providing the majority of children in the nursery class are under compulsory school age and aren’t expected to turn compulsory school age that year, the whole nursery class will remain exempt from VAT. Nursery schools not attached to a private school will remain exempt from VAT, regardless of the age of their pupils.<sup>151</sup>

Following the Budget the Institute of Chartered Accountants for England and Wales (ICAEW) published a short submission on this measure, in which it raised the concern that the ‘wholly (or mostly wholly)’ test was unclear, and would present schools with some difficulties in ensuring it was met:

‘Almost wholly’ is not defined in the legislation, which leaves open to interpretation how many children of compulsory school age (or expected to attain compulsory school age) can be in a nursery class before it is no longer treated as such [...] it is not clear at what point a class would become ‘almost wholly’ composed of children under compulsory school age.

As a result, this is causing much uncertainty in the private school sector and could lead to larger schools challenging the definition of ‘almost wholly’ through the courts. Smaller schools will be required to accept HMRC’s interpretation of the law, despite HMRC not currently providing a clear definitive threshold for ‘almost wholly’.<sup>152</sup>

## Small faith schools, international schools, performing arts schools

A large number of respondents called for small faith schools to be exempted. Some respondents made the case for international schools and performing arts schools to be exempted as well. In all three cases the government took the view that these schools should remain in scope.

In the first case, the government noted that it did not believe small faith schools would be disproportionately affected:

This is because, while fees of many small faith schools are lower than average, the VAT charge will be commensurately lower, resulting in a proportional charge that is 12 comparable to that for other schools. Indeed, some faith schools are likely to be less than proportionately impacted if their income is derived not only from fees but also from other sources, such as voluntary donations from the community, or support from religious organisations. This is

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<sup>150</sup> [As above](#) para 2.14

<sup>151</sup> [As above](#) para 2.39. see also, [PQ10716](#), 1 November 2024; [PQ20390](#), 20 December 2024.

<sup>152</sup> ICAEW, [ICAEW REP 089/24 Finance Bill 2024-25: Clause 47 - Value added tax - Removal of exemption for private school fees](#), (PDF) 5 December 2024 paras 5-9

because donations that are freely given and where there is no reciprocal obligation are outside the scope of VAT.

As such, not all of the income that small faith schools receive will be subject to VAT. Small faith schools will, however, be able to reclaim all of the VAT they pay on goods and services used to deliver education and boarding services. Thus, they may benefit from a lower net effective rate of VAT.<sup>153</sup>

The government believed that an exemption for small faith schools, excluding schools with fees below a set threshold, would be costly, unfair and potentially open to misuse:

The government has also closely examined the proposals put forward for how small faith schools could be carved out of the policy, the most common of which was to carve out all schools with fees below a set threshold [...] Any carve out would reduce the amount of revenue raised from this policy, be unfair to those schools with fees just above the threshold, and would create many tax avoidance opportunities that would be difficult for HMRC to police.<sup>154</sup>

Further to this, treating small schools differently would be counter to the government's position that state education is suitable for children of all faiths:

All children of compulsory school age are entitled to a state-funded school place if they need one, and all schools are required to follow the Equality Act. These include fostering and promoting an environment that encourages respect and tolerance of children and families of all faiths and none. As a result of these considerations, faith schools will remain in scope of this policy.<sup>155</sup>

In the case of international schools, the government acknowledged that individual schools received financial support from foreign governments, but noted that many still charged fees comparable to many British private schools. It went on to argue that these schools should remain in scope to ensure consistency of treatment and to protect tax revenues:

The government recognises that education provided by British schools in other countries is not subject to VAT, but this is because no private schools in those countries are required to charge VAT. British international schools in other countries do not benefit from preferential treatment. Therefore, to ensure consistency of treatment between private schools whose pupils' parents are choosing to send their children to that school when there is state education available, and to protect the amount of revenue raised by this policy, international schools will remain in scope of this policy.<sup>156</sup>

Finally, the government took the view that performing arts schools offering full-time education to children of compulsory school age and/or 16-19 year olds for a charge should remain in scope. This would, in its view, "ensure

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<sup>153</sup> HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 para 2.19. The document provides some illustrative examples to this effect (see para 2.20).

<sup>154</sup> [As above](#) para 2.22

<sup>155</sup> [As above](#) para 2.23. See also, [PQ HL1940](#), 6 November 2024

<sup>156</sup> [As above](#) para 2.25. See also, [PQ11616](#), 6 November 2024

fairness and consistency across all schools that provide education services and vocational training for a charge”. The government also observed that in this context these institutions also provided academic education:

In addition to providing performing arts education, when educating children of compulsory school age, these institutions will also provide academic education. It is the government’s position, therefore, that carving these schools out of the policy would be unfair to other private schools.<sup>157</sup>

As noted above, one of the changes the government announced in its response to the consultation was to ensure that higher education (HE) taught at performing art schools would not be within scope:

To ensure consistency of VAT treatment between HE taught at universities (which are not within scope of this policy), and HE taught at institutions that are within scope of this policy (such as performing arts schools), HE will be expressly carved out of this policy.<sup>158</sup>

Following the Budget the government has reiterated its position on performing art schools, which will affect those students attending these institutions in receipt of Music and Dance Scheme grants. However the Department for Education has announced an increase in funding to support families on lower incomes in receipt of these grants.<sup>159</sup>

## Special educational needs and disabilities

In its technical consultation the government confirmed that local authorities and devolved governments would be compensated for any VAT they paid on fees for pupils they had placed in private school.<sup>160</sup> These placements are made when the authorities deem that the pupil’s needs cannot be met in the state sector. The consultation document asked for views on whether this approach to protecting pupils with the most acute SEND met the intended policy aims across all four UK nations.

Although relatively few respondents addressed this question directly, many raised concerns about the impact of the policy on pupils with SEND, and some argued that an exception should apply to these pupils:

In particular, respondents raised concerns that parents feel many pupils have needs that cannot be met in the state sector, despite not qualifying for an Education, Health and Care Plan (EHCP), or equivalent in the devolved nations. Respondents also highlighted that the smaller class sizes and more specialised provision that private schools can offer make them more suitable settings for

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<sup>157</sup> [As above](#) para 2.27

<sup>158</sup> HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 para 2.28

<sup>159</sup> [PQ HL3742](#), 13 January 2025; [PQ 21367](#), 8 January 2025; [PQ 13385](#), 18 November 2024.

<sup>160</sup> HMT, [Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools: technical note](#), (PDF) July 2024 para 2.19-27

pupils with some forms of SEND, even if their core needs could be met in the state sector.

A number of respondents also raised concerns with the current EHCP system in England, highlighting in particular that waiting lists can be long and that LAs' decisions to refuse an EHCP are frequently overturned at Tribunal. Some respondents therefore called for all children with SEND who attend a private school to be carved out of the policy.<sup>161</sup>

In response the government acknowledged that some parents chose to send their child to a private school, even if their child did not have an EHCP or equivalent. However, it took the view that it would not be fair to craft an exemption for these pupils:

Both for fairness reasons and to protect Exchequer revenue, the government deems it important for preferential VAT treatment to be tied to a formal, independent assessment that a child's needs cannot be met in the state sector. Carving all children with SEND out of this policy would carry a significant cost, and therefore undermine the government's ability to improve education for the 94 per cent of school children in the UK that attend state schools, including for the over 1 million children in the state sector with SEND.<sup>162</sup>

The government also set out its reasons for not providing a carve out for all private special schools.

Respondents had made the case that accounting for VAT would be disproportionately burdensome for schools with a high proportion of local authority or devolved government-funded pupils, as the VAT they charge on their pupils' fees will ultimately be recovered from HMRC. The government took the view this would be unfair, and that it would be more financially advantageous for schools in this situation to be in the scope of VAT:

This approach would result in the fees of privately-funded pupils in attendance of private special schools being exempt from VAT, whilst the fees of pupils attending mainstream private schools (including those with SEND) would be subject to VAT. The government deems this to be unfair, given that, in both cases, parents have made a choice to send their children to private schools when the state deems there to be appropriate provision in the state sector for these pupils [...]

Furthermore, the ability to recover input VAT will outweigh the administrative burden of being a VAT-registered business for the vast majority of special schools. [...] Government analysis suggests that, even where a high proportion of special schools' costs are spent on staffing, on average, they are expected to be able to reclaim a significant amount of money each year. As such, it is more financially advantageous for schools that have a high proportion of their fees paid by local authorities or a Devolved Government to be within scope of VAT, rather than exempt, as the amount of input VAT they are able to recover

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<sup>161</sup> HMT, [Government Response to the Technical Note on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rate Relief Summary of Responses](#) (PDF) October 2024 para 3.3-4

<sup>162</sup> [As above](#) para 3.12

will outweigh the VAT they charge on fees that is not refunded [by the authorities] [...]

Even special schools with a less high proportion of fees funded by bodies eligible for VAT refunds will see their VAT liability significantly mitigated by their ability to reclaim input VAT on all their educational services, including those supplied to the bodies receiving refunds of VAT.<sup>163</sup>

## 3.4 Finance Bill 2024-25

### Second reading

The Finance Bill 2024-25 received a second reading on 27 November 2024.

Introducing the bill the Exchequer Secretary James Murray confirmed that it would apply VAT at the 20% standard rate on private school fees charged on or after 29 July for terms starting after 1 January 2025. He argued that “ending tax breaks for private schools is a tough but necessary decision that will secure additional funding to help the Government deliver their commitments to improve education in state schools across the country.”<sup>164</sup> Mr Murray suggested that it was unlikely this would result in fees rising by 20%, and noted many schools had “already publicly committed to cap increases at 5%, or to absorb the full VAT costs themselves.”<sup>165</sup>

The minister also referred to the government’s estimate that the policy would result in 35,000 pupils either leaving or not entering the private sector, and compared this figure with estimates of the numbers of pupils who generally move between the private sector and the state sector:

To put that number in context [...] every year many pupils move between schools, including between private schools and the state sector. A Department for Education report published in 2022 looking at moves between state schools and out of state schools, found that almost 60,000 moves take place every year [...] Pupil numbers in schools fluctuate regularly for a number of reasons, and the school funding system in England is already set up to manage that.<sup>166</sup>

By contrast the Shadow Chancellor, Mel Stride, was strongly critical of the change, arguing that parents who “stretch to try to make ends meet to send their children to those schools are to be denied.”<sup>167</sup>

Damian Hinds (Conservative) also opposed the measure on principle, arguing that “whatever the circumstances and whatever the reason, [Conservatives] believe in the sanctity of the principle of parental choice.”<sup>168</sup> Mr Hinds argued that extending VAT to school fees would start to have a significant impact

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<sup>163</sup> [As above](#) para 3.14-15. The document provides a worked example to illustrate this (para 3.5).

<sup>164</sup> [HC Deb 27 November 2024 c815](#)

<sup>165</sup> [As above c816](#)

<sup>166</sup> [HC Deb 27 November 2024 c817](#)

<sup>167</sup> [As above c825](#)

<sup>168</sup> [As above c844](#)

from the start of the new school year in September 2025, and the pupils most affected would be “be those in smaller town schools—the ones that are significant employers locally and a big part of the local community.”<sup>169</sup> Mr Hinds noted the concessions the government had made, but argued further changes should be made if the policy was not to be dropped entirely:

We must have an exemption for all children with an EHCP [...] children who have SEN support, and those who are currently applying for an EHCP. We must have exemptions for schools whose fees are lower than the average charge in the state sector, and for religious denominations where there is no faith school provision in the state sector [...]

We also need key postponements. Children who are already in public exam years, or the year before public exams, cannot have their education disrupted in this way [...] Most significantly of all, the Government must for good reasons, including simple practical reasons, at least postpone the introduction of the measure in areas where state schools are already full, or almost full, at that stage of education.<sup>170</sup>

Responding to the debate the Economic Secretary, Tulip Siddiq, addressed two points that Mr Hinds had made in his speech. First, on the impact on SEND pupils, the minister noted that “to protect pupils with special educational needs and disabilities who can only have their needs met in a private school, the local authorities and devolved Governments that fund those places will be compensated for the VAT they are charged on those pupils’ fees.”<sup>171</sup> Second, the minister argued that it was important for faith schools to remain within the scope of the policy to “ensure fairness and consistency between all schools”:

Of course the Government value parental choice and recognise that some people want their children to be educated in a school with a particular faith ethos. My hon. Friend the Exchequer Secretary met the Partnerships for Jewish Schools and the Association of Muslim Schools during the consultation period on this policy. To ensure fairness and consistency between all schools that charge fees, faith schools will remain in the scope of the policy.

It is worth noting for the right hon. Member that some faith schools are likely to be less impacted by the policy if some of their income is derived from voluntary donations from the community, because donations that are freely given and for which there is no obligation are outside the scope of VAT. As such, not all the income that small faith schools receive will necessarily be subject to VAT. I hope that reassures him a bit.<sup>172</sup>

## Committee of the Whole House

Following the vote on second reading the House agreed a programme motion, selecting those parts of the bill to be considered by the Committee of

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<sup>169</sup> [As above c847](#)

<sup>170</sup> [As above c848](#). During the debate the policy was criticised by Dr Neil Shastri-Hurst (Conservative) and the Shadow Exchequer Secretary, James Wild ([As above c856, c877](#)).

<sup>171</sup> [As above c880](#)

<sup>172</sup> [HC Deb 27 November 2024 c880-1](#)



the Whole House. This list includes the provisions to extend VAT to private school fees (clauses 47 to 49).<sup>173</sup>

In turn these provisions were agreed unamended when debated by the Committee of the Whole House on 11 December 2024.<sup>174</sup>

Introducing these provisions Exchequer Secretary James Murray acknowledged the concerns raised by Members about the impact on “particular types of schools and on different pupils”, and made two points:

First, to protect pupils with special educational needs that can be met only in a private school, the local authorities and devolved Governments that fund these places will be compensated for the VAT they are charged on those pupils’ fees.

Secondly [...] the Ministry of Defence and the Foreign Office have agreed to increase the funding allocated to the continuity of education allowance to account for the impact of private school fee increases.<sup>175</sup>

The minister went on to explain how VAT would be applied in practice:

The Government believe that allowing fees paid from the date of the July statement to the date this policy comes into force to be paid without charging VAT on them would be unfair on the vast majority of families who will be unable to pay years-worth of fees in advance. The changes made by clause 48 will therefore introduce anti-forestalling provisions that will apply to all prepayments of private school fees and boarding services on or after 29 July 2024 and before 30 October 2024.

Finally, clause 49 sets out the commencement date for these changes, which will apply to any fees paid on or after 29 July 2024 relating to the term starting in January 2025.<sup>176</sup>

Speaking for the Opposition the Shadow Exchequer Secretary James Wild argued that extending VAT to school fees would “particularly hurt those parents on modest incomes who are saving to send their children to a school that they think will best serve their needs.”<sup>177</sup> Mr Wild proposed the government should undertake a review on the impact of this policy within six months of it being implemented:

The Opposition are deeply concerned about the impact the tax will have on pupils with special educational needs, small rural schools, faith schools and schools taking part in the music and dance scheme. We have consistently warned of the damage it will do to young people’s education, and we voted against the measures in the Budget resolutions. New clause 8 [...] would require the Chancellor, within six months of the Act being passed, to make a statement to Parliament on the impact of the changes on those groups in particular, as well as the music and dance scheme.<sup>178</sup>

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<sup>173</sup> House of Commons, [Votes and Proceedings No.52](#) (PDF) 27 November 2024

<sup>174</sup> House of Commons, [Votes and Proceedings No.62](#) (PDF) 11 December 2024

<sup>175</sup> [HC Deb 11 December 2024 cc940-1](#)

<sup>176</sup> [HC Deb 11 December 2024 c941](#)

<sup>177</sup> [As above c943](#)

<sup>178</sup> [As above](#)

Speaking for the Liberal Democrats Munira Wilson also proposed a new clause to require the government to produce an impact assessment – in this case, on “the effect of the imposition of VAT on school fees on pupils who have special educational needs, but who are without an education, health and care plan”:

The Liberal Democrats have been absolutely crystal clear: we are opposed to this tax on education, and we call on the Government to rethink their decision. It is an unnecessary, unfair and counterproductive policy.<sup>179</sup>

In his contribution to the debate Damian Hinds (Conservative) raised concerns about HMRC’s approach in estimating the impact of the policy on the numbers of children who would leave the independent sector:

To inform their conclusion on how many children will be displaced in the private sector, the Government have, to an extent, relied on one statistic. They say that the number of private pupils has remained steady, a large real increase in average school fees since 2000. Considering price elasticity is a mathematically flawed approach [...]

Moreover, it makes no sense at all to look at gradual price increases over a 10, 20 or 20-plus year timeframe and to say we could conclude anything from that on the effect of an overnight price increase of 15%, 20% or more.<sup>180</sup>

Mr Hinds went on to raise concerns that the government had underestimated the financial impact on the state sector:

The government say the revenue costs will be £270 million a year. That is, in other words, the cost of educating those extra 35,000 in the state sector. They go on to say that they have calculated the number based on the average spend per pupil in England in 2024-25. That is wrong. It is a mistake to base it on the average pupil because we know children with special educational needs will disproportionately have to transfer, and that will have a higher cost to their education.

Moreover, we will get more families—we do not know how many—applying for an EHCP. The limiting case is where a child is in a private school right now and their parents are paying considerably more than the average place. They will find that they cannot afford the extra 20%, so they will apply for an EHCP and the child could get placed back in the same school, with the entire cost now being picked up the state.<sup>181</sup>

In his response the Exchequer Secretary set out the government’s rational for rejecting both new clauses:

I want to make it clear that in developing this policy, the Government carefully considered the impact it would have, including the impact it would have on pupils with special educational needs and disabilities, rural and urban schools, faith schools, and schools that take part in the music and dance scheme. [...]

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<sup>179</sup> [As above c948](#)

<sup>180</sup> [As above cc954-5](#)

<sup>181</sup> [HC Deb 11 December 2024 c956](#)

The Government set out the expected impact of the measure in a tax information and impact note published at autumn Budget 2024 in the usual way. [...] In addition, based on the evidence provided, it is not apparent that small faith schools will be more affected by this policy than other schools.<sup>182</sup>

In the event only the first of these new clauses was put to the vote, and rejected – on party lines – by 329 votes to 167.<sup>183</sup>

## Remaining stages of the Finance Bill

The Finance Bill completed its report stage and third reading on 3 March 2025.<sup>184</sup>

The government did not propose any amendments to the provisions in the bill relating to VAT on private school fees.<sup>185</sup> On this occasion the Shadow Exchequer Secretary James Wild reiterated the Opposition’s view that education should not be taxed, and extending VAT to school fees “particularly hurts those on the most modest incomes who have chosen to save and make sacrifices to send their children to a school that they think will serve them best.”<sup>186</sup> In addition Daisy Cooper (Liberal Democrat Treasury spokesman) tabled a new clause requiring an assessment of the impact of extending VAT to fees on child with special educational needs. The Member set out the purpose of the new clause as follows:

New clause 7 would require the Government to produce an impact assessment of the effect of the Bill’s VAT provisions on pupils who have special educational needs but do not have an education, health and care plan. The Government have introduced an exception for children who do have an EHCP, but as Members will know, there are children who have diagnosed special educational needs—or in some cases are awaiting that diagnosis—but do not have an education, health and care plan. [...]

If the Government had really wanted to pursue this measure, I would have hoped at the very least that it would have happened in a few years’ time to allow for adjustment. But we are where we are. We do not support the measure, but at the very least we request an impact assessment.<sup>187</sup>

In response the Exchequer Secretary James Murray reiterated the government’s position on extending VAT, and its opposition to Ms Coopers’ new clause:

The policy will raise £1.7 billion by the final year of this Parliament, so it is essential that the Opposition explain what they would cut from the schools budget, from education services, or from any other public services to pay for the reintroduction of that tax break [...]

The Government set out the expected impacts of this policy in the autumn Budget, so I do not believe that new clause 7—which would require the

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<sup>182</sup> [As above c968](#)

<sup>183</sup> [As above cc978-80](#)

<sup>184</sup> House of Commons, [Votes and proceedings No.98](#), (PDF) 3 March 2025

<sup>185</sup> HMRC, [Finance Bill 2024-25: Report Stage](#), 26 February 2025

<sup>186</sup> [HC Deb 3 March 2025 c64](#)

<sup>187</sup> [As above c69, cc70-71](#)

Government to make a regular statement on the impact of pupils with special educational needs and disabilities—is necessary. However, I take this opportunity to make clear that in developing this policy, the Government carefully considered the impact it would have, including on pupils with special educational needs and disabilities. I am sure that the hon. Member for St Albans (Daisy Cooper) and her colleagues will welcome the extra £1 billion next year for high needs funding.<sup>188</sup>

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<sup>188</sup> [As above c93](#). In the event the new clause was not put to a vote (House of Commons, [Finance Bill \(Report stage decisions\)](#)), (PDF) 3 March 2025 p4).

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