

VAT, independent schools and the more affordable purchase of services



Historically the charitable status of private schools has meant that independent school fees are not taxable. It has also meant that schools cannot reclaim VAT on goods and services they purchase. However this could all be due to change as soon as 2024.

Keir Starmer's Labour Party policy on VAT and why it matters

The Labour party, who are currently leading in the polls, are proposing to remove tax exemptions for independent schools, including VAT on school fees.

The implications for private school fees should Labour win at the next general election

While the subject of charitable status is no longer in the firing line, the introduction of VAT on private school fees, and potential VAT on boarding fees, is no small change to the education sector.

There are many speculating what the changes might mean: whether this will necessarily put private school fees up by the VAT rate of 20% – likely causing some students to drop out – or whether some schools will be able to absorb the costs in other ways.

How soon could VAT be imposed on private schools?

A number of schools are now making contingency plans in case 2024 is the year that the VAT rules change. Some in private sector education are talking about September 2024 as a worst case scenario, and this is a distinct possibility.



A snap election may be called as early as Spring 2024, and if a Labour government comes to power, the change to VAT is likely to happen suddenly. When speaking to [i*](#) in September about the plans, one senior Labour source reportedly said, “We will not be phasing them in.”

What VAT changes could mean for services purchased by private schools

One key way in which private schools might be able to absorb some of the costs is by recovering VAT on some goods and services, such as catering or cleaning. These goods and services currently come with VAT charges that are unrecoverable due to a school's VAT exemption status. However, if they become VATable, it will actually allow independent schools to recover VAT on more of their costs.

Furthermore, schools that have undertaken capital projects, such as new builds and renovations, costing more than £250,000 before VAT, might be entitled to VAT recovery here. They might even be able to backdate this recovery of VAT to projects paid for up to 10 years ago.

Going forward, it will mean that utility bills, repairs and other maintenance costs “incurred for the purposes of business” will be recoverable.

This will mean that private sector education will benefit from almost the same financial position that the state sector experiences, reclaiming most VAT added by suppliers to their invoices. In this way, all taxable supplies will become more affordable.

“The exemption means that private schools don’t have to charge VAT on the supply of education, but as a result of that they also can’t get back any VAT on their costs that directly relate to that supply of education.” – Ed Saltmarsh, Technical Manager, [The Institute of Chartered Accountants in England and Wales*](#).

Could outsourcing services offset part of the rise to private school fees?



The impact will vary from school to school, with the smaller and medium-sized perhaps feeling a disproportionate impact. While it’s wildly unrealistic to expect anyone to completely absorb VAT on school fees by claiming back tax, some have made estimates that this could result in a 15 per cent rise to private school fees, rather than a full 20 per cent rise.

If schools are forced to reevaluate their relationship with VAT, the private education sector will also explore outsourcing in a way it hasn’t considered before.

Due to the charitable status of independent schools, as well as their common preference for self-sufficiency, most schools offering private education have run many of their non-teaching operations in-house, from catering to cleaning to security and so on. As a result, most have not explored the potential savings they could make from outsourcing.

If Labour get a majority in the House, however, and independent schools gain the ability to reclaim on VAT charges, most if not all these schools will be exploring the suddenly-more-cost-effective outsourcing options out there. And with the right service partners, schools will find they can save more than they first imagine – certainly more than the standard rates of VAT on those services.

As we explore in our article, [why more independent schools should outsource their cleaning services*](#), the independent sector can see significant savings when they partner with a specialist to achieve industry standards of efficiency. We’ve seen independent schools that stand to save 20, 30, 40 or even 50 per cent on their cleaning spend through these measures.

Will outsourcing be worth it if the proposed changes to tax exemptions don't happen?

It's possible that the polls may not reflect the actual election results and that private schools will remain exempt from VAT. However, outsourcing to service partners may still prove to be advantageous. There are certainly many benefits:

1) You'll get to focus on the provision of education

By outsourcing services, you free up others in your staff – they're no longer dealing with HR issues in the catering team, or recruitment for the cleaning team, or the provision of services around an event – and instead your team can focus on their area of genius.

2) You'll have an optimised supply chain

In the same way that your school knows how best to source educational resources, a service partner you choose to work with will know how best to source supplies in their specialist area, e.g. As a specialist cleaning partner, Nviro can draw on data and experience to find the best chemicals and cobotics for your school, resulting in the highest standards and possibly cost-savings too.

3) You'll free up additional revenue

In order to be competitive in the service market, providers have to achieve industry standards of efficiency. This means the right partner is likely to be able to provide the same level of service as you can achieve in-house, but they can achieve those results with greater cost-efficiency. You're then free to spend the savings where it will matter most to your educational institution.

Nviro has been a specialist cleaning provider for the education sector for 30 years. Having partnered with a number of schools in the private sector – from St Paul's School for Boys, Thomas's London Day Schools, Regent's University London, and many more – we have learned how to optimise the supply of services and create a clean, hygienic and safe educational environment where everyone can thrive.

Sources:

i*: <https://inews.co.uk/news/politics/labour-vat-plans-hit-private-schools-next-year-starmer-prepares-immediate-rollout-2640753>

The Institute of Chartered Accountants in England and Wales*: <https://www.icaew.com/insights/podcast/insights/vat-exemptions-for-private-schools-and-final-cpd-update/transcript>

www.nviro.co.uk/2023/11/24/why-more-independent-schools-should-outsource-their-cleaning-services/

Find out more

If you want to learn more about how we can make your school clean, hygienic and safe, contact our expert, Antony Duggan:

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