

Priceless education

Choosing an independent school is a serious investment

Parents or grandparents wishing to give their children or grandchildren the benefit of an independent education face startling costs. This is followed after school by the costs of a university education, which are also considerable. However, with careful planning, it may be possible to avoid a huge outstanding student loan or tax burden.

Choosing an independent school is a serious investment. Recent figures show that average boarding school fees stand at over £30,000 a year, with day-only attendance costing more than £17,000. These fees continue to rise, last year increasing by 3.5% compared to 2015^[1].

FINANCIAL SACRIFICE FOR MANY PARENTS

The overall cost for just one child can end up being about the same as buying an average home in the UK. That's a massive financial sacrifice for many parents, leading them to wonder if it's better to pay for their child's education or save the money to help them onto the property ladder later in life. In any case, without planning ahead, the cost can be a huge money sink or lead to further borrowing.

There are a number of simple strategies to consider. The first option to consider is likely to be Individual Savings Accounts (or 'ISAs'), along with directly held investments in the parents' own name. This means that they will keep the right to access capital at any point with little or no tax liability through the ISA. In addition, the directly held portfolio can be used to take annual gains tax-free if within the Capital Gains Tax (CGT) allowance (£11,300 for the 2017/18 tax year).

DEFERRED RATHER THAN EXTINGUISHED

Once ISA and CGT allowances have been used, further capital could be held via an investment bond. This allows a portfolio to be invested and offers the facility for 5% per annum to be drawn on a tax-deferred basis (deferred rather than extinguished), which can be particularly useful when it comes to paying annual school fees.

Investment bonds offer UK resident individuals a number of attractive benefits. The allowance is tax deferred, rather than 'tax-free'. If the 5%

withdrawal allowance is not taken in any policy year, the unused allowance can be carried forward on a cumulative basis. If a withdrawal is taken which is over the 5% cumulative allowance, the excess is added to the policyholder's other taxable income and taxed as savings income in the tax year in which the policy year end falls. On the final policy encashment, all previous withdrawals are accounted for when calculating the overall policy gain.

REDUCE THE TAX LIABILITY ON ANY EXCESS

Top slicing relief may reduce the tax liability on any excess. However, if capital is required from the bond – which is in excess of the cumulative allowance – it is maybe more tax-efficient to surrender individual policies (segments) rather than take a partial surrender from across the entire bond.

In some situations, surrendering full segments could have immediate tax benefits. However, it is important to note that thereafter the allowance will be based on the initial premium paid in relation to the remaining segments. ■

Source data:

[1] Independent Schools Council, annual census 2017

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HEFTY PRICE TAG

When it comes to our children, a good education is priceless – but sending them to an independent school comes with a hefty price tag. If you are planning on giving your children or grandchildren a start in life by planning for their education, we can discuss with you the various options available. To find out more, please contact us.