



School Fees Trust

School Fees Trusts are an income tax efficient way of paying or contributing towards education costs as well as potentially mitigating Inheritance Tax for the Settlor.

Strategy

Many educate their children privately and the cost of such education is often a significant financial burden. Grandparents or other friends or relatives are also often in a position to make gifts to other family members and like to do so to mitigate Inheritance Tax (IHT). Often these gifts are a welcome assistance for the payment of school fees.

By using a trust anyone, except the parents of the children being privately educated, can make a gift into a School Fees Trust. Up to the nil rate band for IHT can be made to a trust tax free. Assets can also be transferred into the trust without incurring Capital Gains Tax (CGT) because a claim for holdover relief can be made to avoid the CGT on transfer.

As soon as the trust is created the trustees can make payments for the maintenance, education and benefit of the minor beneficiaries. Even if the payments are made to the child's parents or directly to the school they are deemed to be made directly to the minor beneficiaries for income tax purposes. The trustees will issue a tax deduction certificate to the child declaring that income tax has been paid on the income element of the payment. This allows the child to make use of their unused personal allowance and lower tax band for income tax purposes. The result is that the child can potentially claim a significant income tax repayment which can also be used to assist with the payment of future educational expenditure or maintenance.

Advantages

- Any assets, or part share of assets, can be settled on trust (subject to a review of any taxation consequences).
- Provides a fund for the payment of future school fees.
- IHT saving on the Settlor's death, 7 years after creation.
- IHT saving can be doubled with careful inter-spouse planning (each spouse has their own nil rate band).
- Flexibility. You can include a large number of beneficiaries and even provide for future unborn children.

For further information contact

Scott Clayton on +44 (0)20 3356 9763
scott.clayton@ardeltrust.co.uk

Ardel Trust Corporation plc

9 Devonshire Square, London EC2M 4YF
 T +44 (0)20 3356 9763 F +44 (0)20 3356 9764

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