JACKSON STEPHEN
ACCOUNTANTS / ADVISERS
A REAL ASSET

# Educational costs Planning

## Planning for future growth

### Suitability

This planning is suitable for:

- Parents with a child aged 18 or over and is attending or due to attend university
- Grandparents with a grandchild attending or due to attend private school or university

The parents/grandparents should be shareholders in their own company.

Due to certain tax legislation it may not be possible to use this planning in certain circumstances. However, we have developed ideas which may be able to overcome these problems.

### Which costs can be covered?

This planning not only covers the standard school/university fees but can also cover additional costs such as uniforms, sports equipment, excursions, musical equipment and tuition, extra-curricular activities, boarding costs, rent, study materials and living expenses.

### The planning

The basic idea of this planning is to divide the current company shareholding into two distinct classes of shares (for example 'A' and 'B' shares).

Following this division the B shares are gifted into a trust for the benefit for the children/grandchildren.

The trust will receive any dividends paid on the B shares and this income is used to pay the child/grandchild's educational costs. The dividend income is effectively assessed on the child or grandchild, who would potentially have all or the majority of their basic rate band available. This should result in little or no tax charge arising on the dividends.

### Overview

The cost of sending children through university or grandchildren through private school can be very significant and with the current level of university fees unlikely to decrease the problem is only going to get worse over the next few years.

In order to fund their child/grandchild's education the shareholders will have to withdraw significant sums from the company. A knock on effect of this is that the withdrawal of money from the company incurs a tax liability on the shareholder. The tax charges on withdrawing money from the company can be up to 38.1% on dividend income and 47% on salary and bonus payments.

Over the course of a child's education the tax costs can be significant and the problem is magnified if more than one child is put through paid education.

This planning has been designed to mitigate the tax costs under these circumstances.

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## The tax savings

As a result of a business owner having to withdraw funds from the company into his personal name the tax and national Insurance charges can be up to 38.1% on dividend income or 47% on salary or bonus payments.

For example, the total gross income requirements in order to fund a 3 year degree costing £60,000 without using this planning would be approximately £97,000 if dividends were paid or approximately £113,000 if bonuses were paid.

By using this planning it will provide tax savings of approximately £37,000 or £53,000 in comparison to dividends or salary respectively.

The above provides an overview of the planning available. If you would like specific advice on your individual circumstances, please contact:

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