

# A helping hand from grandparents with school fees

HEALTH AND CARE UPDATE

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If you are a business owner with children in private education, the cost of school fees might be the thorn in your side!

However, grandparents may be willing to provide some financial support towards their grandchildren's education. With careful planning, there are a number of ways that they could contribute in a tax efficient way, which could take away some of the pain.

There are certain exemptions that allow grandparents to make annual gifts and gifts out of income in a tax efficient way. Although useful, these allowances may not make a dent in expensive private school fees.

An alternative and tax efficient option could be through the use of trusts. Where a grandparent holds shares in the family trading business, they could settle some of their shares into a trust for the benefit of their grandchildren.

The gift into the trust will be a disposal for capital gains tax purposes, but an election can be made to hold over the gain.

Any dividends paid out on the shares would then be subject to tax on the grandchildren rather than the grandparent. The grandchild should have access to their personal allowance to offset this, as well as a dividend allowance (currently £2,000 per annum), giving total allowances of £14,570 per annum before any tax would be due.

This could be much more tax efficient than the income being extracted by the grandparent at tax rates of up to 45% on income and 38.1% (39.35% from April 2022) on dividends. Control of the shares would still remain with the grandparents, as trustees.

The exact position will depend on whether the trust is set up as a bare trust or discretionary trust. If a bare trust, the grandchild will be taxed directly on any dividends received by the trust. If a discretionary trust, the trust will initially be taxed on any dividends (at a trust rate of 45%) received but this can be offset and tax reclaimed by the grandchild, as appropriate, when utilising their allowances.

A bare trust is more straightforward to set up, however, it would provide the grandchildren with absolute rights to the shares when they turn 18. Discretionary trusts offer more flexibility but can be more complex.

If the grandparents do not already own shares in the family trading business, there is the possibility of transferring some shares for a later settlement into a trust for the benefit of their grandchildren.

There are a couple of steps to achieve this, each with their own tax, valuation and commercial considerations.

**We would be delighted to discuss these opportunities with you; please get in touch with Rachael Anstee to find out more.**



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