ISBA 2025

Schools Briefing

HaysMac

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Welcome from the editor

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Welcome to the ISBA Conference edition of our Schools Briefing for independent schools, where we provide updates and insights on accounting, tax, reporting and governance for school bursars and Governors.

We begin with a HaysMac team update. As part of the refreshed Social Purpose strategy, Tracey Young will hand the reins of the Education team to Jane Askew, Partner, after nearly 10 years at the helm. Under Tracey's leadership, the Education sector at HaysMac has seen significant expansion, thriving even through challenging periods including the introduction of VAT on School Fees. This growth is a testament to Tracey's vision and resilience. Moving forward, Tracey will transition to a Senior Partner role within the Education team, continuing to contribute to the sector's ongoing development and success.

Stepping into her new role, Jane Askew, Partner and Head of Education shares the results of the Independent Schools Management Survey 2025. Schools are continuing to face financial pressures with the implementation of VAT on school fees now in full effect. Unsurprisingly, costs continued to rise due to consistently high inflation. Interesting stats have been shared throughout the survey with a slight decline in overall pupil numbers, and a notable 12% of schools implementing fee increases exceeding 7% in 2024/25.

While many schools are becoming increasingly familiar with the basic principles of VAT recovery and partial exemption, the real challenges often lie in the finer details of the rules and their practical application. In this article, Phil Salmon, Partner and Co-Head of VAT, goes beyond the standard guidance to explore some of the more nuanced and often overlooked aspects of the legislation from business/non-business apportionment to the implications of the standard method over-ride, highlighting key areas schools should be aware of to ensure compliance and optimise VAT recovery.

As part of the Government's efforts to modernise the UK tax system, schools will soon be required to adopt a new approach to how employee benefits are reported and taxed. Nick Bustin, Employment Tax Director, shares guidance for payrolling of benefits in kind which will become mandatory from April 2027. This development will have important operational and financial implications for schools. Nick goes on to outline the recent HMRC announcement, what it means for schools, and the key steps governors should ensure are being taken now to prepare for the changes ahead.

In our next article, Jackson Berry, Senior Manager discusses the significant changes which are coming into effect with the introduction of the updated Charities SORP set to take effect from January 2026. Developed to align with revised FRS 102 requirements, the new SORP introduces a three-tiered reporting framework. He explores what these updates mean for schools, the areas that may require additional planning, and how governing boards can begin preparing now.

Finally, the introduction of the UK's "Reporting Rules for Digital Platforms" marks a significant step toward greater tax transparency in the digital economy. The regulations have broader implications, including those for independent schools and charities that facilitate certain types of online transactions. Jamie Whale, Senior Manager looks at what constitutes a digital platform, the reporting obligations under the new rules, and the practical steps schools should take to assess their responsibilities and ensure compliance.

I hope you find this edition informative and the articles thought-provoking. If you have any questions about the topics covered, please do not hesitate to reach out to the authors, your usual HaysMac contact, or myself for further information and guidance.

Independent Schools Management Survey 2025

There continued to be significant challenges facing schools in 2023/24, with costs continuing to rise as a result of persistent high inflation. The impending implementation of VAT on school fees remained a major concern for governing bodies and leadership teams as they worked to anticipate its effects on parent base and market positioning. The figures provided below are the average for all independent schools completing our Schools Management Survey 2025.

Average Increase/ (decrease) in pupil numbers	2023/24 to 2024/25	2022/23 to 2023/24
All pupils	-1.0%	0.2%
Day	-0.6%	0.2%
Boarding	-4.5%	0.0%
Nursery	3.4%	7.3%

	2024/25	2023/24
Fee increase (start of the school year)	7.4%	5.8%
VAT passed on – January 2025	12.9%	n/a
Inflationary pay award – teaching staff	3.4%	5.4%
Inflationary pay award – non teaching staff	3.5%	5.4%

	2023/24	2022/23
Fee remissions as a percentage of gross fees	9.3%	9.4%
Means Tested bursaries as a percentage of gross fees	4.2%	4.2%
Scholarships as a percentage of gross fees	1.4%	1.5%
Staff fee remissions as a percentage of gross fees	2.3%	2.2%
Premises costs as a percentage of net fees	13.4%	13.4%
Average capital expenditure	£1.522m	£1.939m
Average net surplus* as a percentage of net fees	9.0%	9.0%

** excludes investment income, fundraising income and expenditure, borrowing costs or depreciation*

Our survey indicates that significant pupil loss across the sector has not been immediate, and may instead occur gradually, with the greatest impact felt at traditional entry and exit points. This provides schools with an opportunity to monitor developments and respond accordingly.

Now more than ever, schools must focus on their financial operating models, making necessary adjustments to strengthen financial resilience. Benchmarking remains a valuable tool for senior management and Governors in assessing financial performance and guiding decision-making. This year's survey has provided useful data, and we outline some of the key findings in this article.

Overall pupil numbers across surveyed schools declined by 0.8% from 2022/23 to 2024/25. While figures remained steady between 2022/23 and 2023/24, the decrease occurred between 2023/24 and 2024/25—an expected outcome given the political climate. This trend is evident among both day and boarding pupils, although nursery enrolment saw growth in both years, increasing by 7% from 2022/23 to 2023/24 and by a further 3% from 2023/24 to 2024/25.

The sharpest decline was observed in boarding pupil numbers, which dropped by 5% between 2023/24 and 2024/25 after remaining stable in the previous year.

Day pupil numbers decreased by 0.4%, after remaining stable between 2022/23 and 2023/24. This downward trend affected all school categories except for combined senior and junior day schools whose pupil numbers increased by 0.4% on average, largely due to the increase in nursery pupils.

There continues to be significant increases and sharp declines in pupil numbers at individual schools; with 12% of schools who completed the survey experiencing an increase in pupil numbers of 3% or above. This indicates a varied landscape within the sector, though most schools continue to grapple with challenging market conditions. Mergers and closures persisted into 2025, reflecting the anticipated effects of VAT on school fees and ongoing financial pressures on fee-paying families.

The average fee increase for 2024/25 (September) across surveyed schools was 5.8%, marking a decline from the 7.4% increase in 2023/24 but remaining above the 5% increase in 2022/23. Notably, 12% of schools implemented fee increases exceeding 7% in 2024/25.

The fee rises observed in 2024/25, 2023/24, and 2022/23 represent the highest increases since 2008/09, following a period of relatively modest adjustments.

The average fee increases in 2024/25, 2023/24 and 2022/23 continue to be the largest increase in fees since 2008/09, following a period of relatively modest increases – with the average increase from 2009/10 to 2021/22 ranging from 3.3% to 3.9%. The recent increases reflect the impact of continued high cost inflation on schools and pay awards.

The vast majority of schools adjusted their fees from January 2025 in response to VAT. When surveyed, schools reported passing on anywhere from 0% to 20% of the VAT cost to parents, with an average increase of 12.9%. Nearly 75% of schools passed on between 10% and 17.5%, with the most common adjustment falling between 14% and 16%—a range applied by almost one third of schools.

Inflationary **pay awards for teachers** were an average of 3.4%; a reduction from the 5.4% awarded in 2023/24, and the 3.7% awarded in 2022/23. High inflation continues to exert pressure on pay awards, but the 2024/25 increase shows evidence of governing bodies balancing pay awards with affordability. We have seen an increasing number of schools award one off bonuses when there is certainty over the financial outturn, to support staff through the cost of living challenges.

We have also seen an increasing number of schools exit the Teachers' Pensions Scheme or move to a hybrid scheme arrangement over the past 18 months, after the announcement of a further rate increase from April 2025.

The average inflationary **pay awards for non-teachers** has broadly been in line with that applied for teachers over the last three years; with an average increase of 3.5% in 2024/25.

Schools in the survey provided **fee remissions** of 9.3% of gross fees on average, slightly down from the prior year of 9.4%. This ranges from 5.9% in preparatory day schools to 12% in senior and junior boarding and day schools.

Means tested bursaries (including hardship awards) averaged 4.2% of gross fees in both 2022/23 and 2023/24.

The level of means tested remission provided varies significantly between the school categories with preparatory day schools providing on average 2.4% of gross fees compared with 7.8% at senior boarding schools. **Scholarships** averaged 1.4% of gross fees compared to 1.5% in 2022/23, further continuing the downward trend in this area. **Staff fee remissions** (not means-tested) were on average 2.3% of gross fees in 2023/24, compared to 2.2% in the prior year – continuing a slight upwards trend which we observed in last year's survey.

It is common in the sector for staff to be provided with discounted fees for their children, although the level of remission can vary from nothing, up to - in exceptional cases - 100% (which can have benefit in kind tax implications). It is a very tax efficient benefit and is expected by many teachers and key support staff, and can assist with recruitment and retention. For some, it can be a key part of their decision-making when accepting a role. None of the schools completing our survey this year offered discounts of 100% for the most recent three years, with the highest discount offered being 85%.

Highlights of our analysis of levels of **remission offered to teachers** across all schools in 2024/25 are:

- By far the most common remission is 50%, with 45% of schools offering this level
- The next most common level of remission is between 61% and 70%; with 16% of schools offering remissions within this range, including 13% who provided 66.7%
- Only 4% of schools offered no remission to teachers

Although the levels offered are consistent for most schools over the period, 9% of schools have made changes to remissions for both teaching and non-teaching staff, with the vast majority reducing the discount offered. Several of these schools are those who have merged in the period, which is likely to have generated a review of remissions offered to ensure consistency.

78% of schools provide the same level of remission to both teachers and non-teachers, with the remainder providing much less, if any, remission to non-teachers. 22% of schools provided no remissions to non-teachers.

Premises costs averaged 13.4% of net fees, which is consistent with the percentage in the 2022/23 year. This is a continuation of premises costs making up a higher percentage of net fees and shows the continuing impact of inflation, high energy costs and challenges in sourcing materials and labour for maintenance projects. Premises costs can vary significantly between schools depending on the nature of the school estate, in particular the number and age of the buildings. As expected, boarding schools tend to have greater costs in this area.

Repairs and maintenance form a significant proportion of these costs, making it essential to incorporate both these costs, along with capital projects, into strategic planning and financial forecasting. While delaying projects may offer short-term savings, it often leads to inefficiencies, worsening infrastructure, and higher costs over time. Regular condition surveys provide valuable insight, enabling schools to identify and prioritise necessary work effectively while ensuring adequate financial resources are available.

Average **capital expenditure** was £1.522m in 2023/24 which is a reduction from the previous year's average of £1.939m. Many schools chose not to undertake new major non-essential capital projects in light of the change in Government.

The levels of capital expenditure continue to vary significantly from school to school and by school type. 25% of schools spent less than £250k, compared with 21% in 2022/23. 36% of schools spent over £1m, a decrease from 45% in the previous year.

There continues to be a small number of schools undertaking very significant projects, with 8% of schools spending in excess of 5%, compared to 11% in the previous year. Just under a quarter of schools responding to our survey received fundraising income for capital projects, which is consistent with the prior year.

The amount of income raised towards capital projects varies significantly, with 13% receiving less than £100k and only 2% receiving over £1m. The majority have funded projects at least in part by borrowing.

There was a 5% reduction in the number of schools with outstanding loans at the 2023/24 financial year end, indicating that schools put new large-scale capital projects and borrowing on hold due to the political and economic climate.

The average **net surplus*** was 9% of net fees for 2023/24, and was also 9% in 2022/23. However, the net surplus varied significantly between schools with some achieving significantly in excess of this level and others far below. We continue to believe that schools should target a surplus on net fees before depreciation of at least 10% to provide sufficient working capital, to fund IT, capital and maintenance programmes, and provide means tested bursaries. However, for some schools, strategic plans may indicate that they need to achieve surpluses in excess of this level.

There has been a marked increase in the number of schools reporting **overdue debts**, with 25% more schools reporting an overdue debt balance at the end of 2023/24 compared to 2022/23. The average value of this debt also increasing significantly by 88%. While 33% of schools still report no overdue debts, this figure has dropped from 46% in 2022/23, highlighting the increasing pressure on fee-payers to meet payment deadlines.

The level of bad debt varies widely across schools, but the overall increase is concerning—especially given that parents had yet to fully experience the financial impact of VAT on school fees by the end of 2023/24. In the years ahead, it will be crucial for schools to actively monitor and manage outstanding debts.

Beyond debt concerns, schools must continue to track pupil numbers as well as bursary and hardship awards to identify early warning signs of future financial strain and enable prompt intervention. Cost control and continuous evaluation of operational models remain key to maintaining financial stability, while careful assessment of the business case and long-term viability of capital projects is essential.

Adapting to Change

In the current climate, scenario planning and stress testing are indispensable tools for determining the best strategic approach. As demonstrated by recent mergers and school closures, the sector is undergoing significant transformation at present, and schools must be prepared to respond swiftly to both risks and opportunities. Access to detailed and up-to-date financial data will be vital in supporting governing bodies to make informed decisions.

If you would like a copy of this year's publication, please contact marketing@haysmac.com

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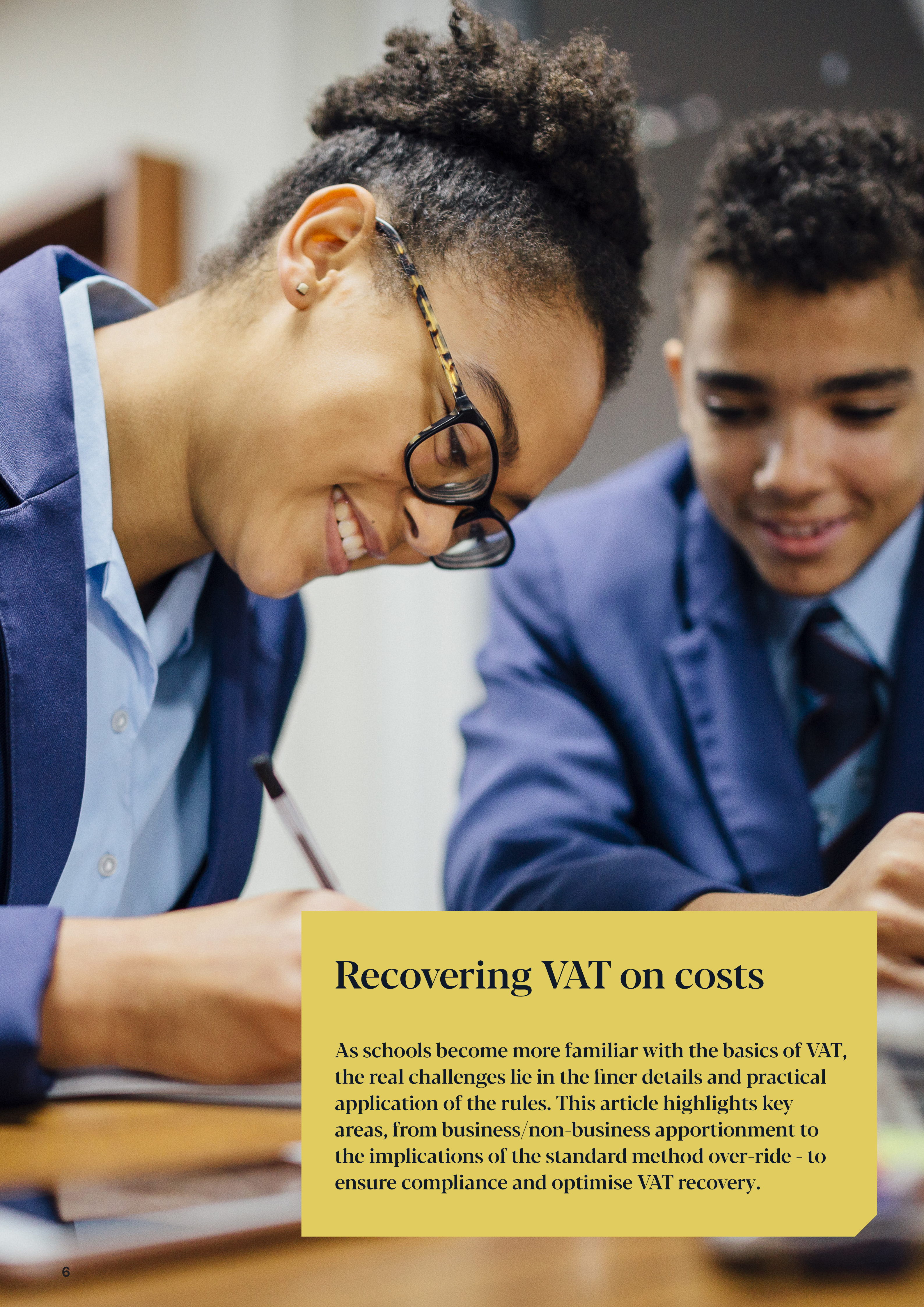
** excludes investment income, fundraising income and expenditure, borrowing costs or depreciation*



Recovering VAT on costs

As schools become more familiar with the basics of VAT, the real challenges lie in the finer details and practical application of the rules. This article highlights key areas, from business/non-business apportionment to the implications of the standard method over-ride - to ensure compliance and optimise VAT recovery.

I do not propose to use this article to set out the detailed rules about VAT recovery and detail how to carry out a partial exemption calculation as this is covered in depth in HMRC's Public Notice 706 on partial exemption, HMRC's Internal Guidance Manuals, as well as ISBA guidance notes, and has been covered in a number of webinars and seminars including our own.

But what I thought I would do is comment on some of the more nuanced areas of the legislation and its quirks.

The fundamental principle is that VAT on costs can only be recovered where the costs are used in making a taxable supply at either the zero, reduced or standard-rate.

It cannot be recovered on costs used in making exempt supplies (except where the costs are "specified" exempt supplies which does not affect schools), or on costs used in carrying out activities which do not involve making exempt supplies, so called non-business activities.

Business/non-Business

The legislation relating to partial exemption is all framed by reference to "input tax" including such things as the de minimis limits. Input tax is itself defined as VAT on the supply to a taxable person (someone who is or should be VAT registered) of "… goods or services used or to be used for the purpose of any business…".

What this means is that VAT that is not used for carrying out a business activity is not input tax, it is simply VAT. This also means that (subject to an exception below) you have to carry out a business/non-business apportionment before a partial exemption calculation because you need to know how much input tax you are dealing with in order to apply the partial exemption rules, i.e. you need to strip out the VAT first.

As alluded to above this means that there is no de minimis allowance for non-business VAT. The exception is that since 2010 it has been possible to carry out a combined business/non-business and partial exemption calculation with HMRC's prior permission.

I would almost invariably advise against this, not just because such a method can never utilise the de minimis provisions, but because a business/non-business calculation is simply required to achieve a fair and reasonable apportionment, so you can choose whichever apportionment fraction you want without having to go 'cap in hand' to HMRC, and if a better method comes to mind then you can simply start to use that other method (though you cannot retrospectively apply it to past periods).

Attribution

Language matters in tax and this is evident in partial exemption where you are required to attribute costs into three categories:

- Those which are used wholly for making taxable supplies,
- Those which are used wholly for making exempt supplies,
- Those which need to be apportioned.

Actually, the word the legislation has used since 1995 is "exclusively" and it means precisely this. The tiniest element of dual use is sufficient to put a cost into the partly recoverable category as was confirmed in the case of Reading Industrial Therapy Organisation. This can, however, be helpful, for example with catering costs.

School meals are now exempt (when not included as part of an overall school fee) but if your caterer or your catering facilities provide taxable catering for events, or you charge staff for meals with VAT you are entitled to partial recovery of the VAT at a VAT recovery rate probably in the mid 90% range, even if the actual taxable use is closer to 10%.

So do think about this when attributing costs as many charities are very conservative and will categorise a cost as non-recoverable because it is overwhelmingly used in making exempt supplies.

The standard method

A similarly cautious approach often sees the VAT recovery rate being rounded to the nearest whole number (particularly if you simply take the percentage from a spreadsheet). But the standard method provides that the percentage should be rounded up to the next whole number, not the nearest, so 99.000001% is actually 100% recovery under the standard method.

The annual adjustment

A partial exemption calculation should be carried out at the end of each VAT return period and the calculation is then repeated at the end of the tax year. This recalculation is simply a repeat of the same calculation but uses the figures for the year as a whole.

Its purpose is primarily to iron out seasonal fluctuations and the school sector is a prime example of how this could arise with four VAT returns in a year and only three termly fee runs.

I have said that the calculation is carried out each quarter before being repeated but you can choose to simply use the VAT recovery rate from the previous annual adjustment for the next three returns before working out the actual annual recovery rate at the end of the next tax year and making an adjustment.

I would not advise doing this for the current year as the recovery rate for this year is likely to be lower than it will over a full year of VAT applying, but it may save a bit of work next year, though you will still need to attribute the costs to the various categories of recoverable, non-recoverable and partly recoverable.

I have referred to it here as an annual adjustment as that is what it is commonly referred to, but technically it is referred to as a longer period adjustment, and so for a school that registered only in, say December with February/May/August/November VAT return stagger, the first longer period adjustment will be from the date of registration until the end of the tax year in May and it will only become an 'annual' adjustment in subsequent years.

The default position is that the tax year (VAT year is sometimes used to avoid confusion with the direct tax position) ends in the Spring VAT return period, so March, April or May depending on your VAT return stagger, but HMRC do have the power to allow a non-standard tax year to be requested so you could be on a May return stagger and request an August tax year end so as to align with your financial year.

If you want to do this, I would not request it immediately without checking whether it reduced the number of intervals you have for any building works within the Capital Goods Scheme (CGS) and inadvertently gives you a lower VAT recovery within the CGS.

One further tip is that we have heard that HMRC have - on at least one occasion - told a client there is no such thing as a tax year or have thought that a change in the VAT return stagger was being requested, so if you want to request a non standard tax year, we would suggest requesting a "change in the tax year in accordance with Regulation 99(1)(d) of the VAT Regulations 1995" to point them in the right direction.

The standard method over-ride

The standard method over-ride was introduced to apply to situations where organisations recovered large amounts of VAT on costs used in making exempt supplies.

It is possible that HMRC could try and argue that it should apply where a school received large amounts of Fees In Advance which created a time of supply (tax point) prior to 29 July 2024 such that the supplies were exempt. But, the education was physically delivered in subsequent periods post 1 January 2025 when the school was largely recovering VAT on costs.

My view is slightly at odds with other organisations as to whether an over-ride should apply, but I would flag the following points. Firstly, HMRC said in the initial guidance that they issued, that they did not believe that a tax point had been set in many cases where fees were paid in advance. If they are right on this, then there can be no mismatch between the amount of input tax that is recovered because no exempt supply has been made as no tax point has been set.

Secondly, HMRC did seem to indicate that a tax point could only have been created where there was a fixed amount paid for specific known terms. As many Fees In Advance may only have been paid for a year in advance these conditions are likely to have been met for the 2024/2025 Academic Year. It therefore seems unlikely that if HMRC are saying they are content that a time of supply has genuinely been created, that they would take the view that this leads to an artificially high VAT recovery rate. Going forward into future years would obviously be different and more likely to be challenged.

Special methods

Any deviation from the standard method is a special method and can only be used with HMRC's prior written permission.

Generally speaking, the standard method is likely to produce a fair and reasonable result but consider the following scenarios. If a charitable Trust has two entirely separate activities with one being the operation of care homes and the other being the running of an independent school then prior to 1 January both of those activities were exempt.

After 1 January the school is largely making taxable supplies but as the Trust is a single entity its VAT recovery rate on shared costs will be dragged down by the exempt supplies made by the care homes.

One solution is to request a special method where each separate activity is treated as a different sector for partial exemption purposes. Shared costs can be allocated to each sector and then the apportionment calculation can be carried out in each sector separately resulting in a high recovery rate in the school sector and a low recovery rate in the care sector. The recoverable amounts can then be amalgamated.

It goes without saying that you would model this to ensure it did result in a better recovery rate before requesting it.

Similarly you could have a Trust operating multiple schools of different sizes with different income and expenditure profiles and which have traditionally been run as separate entities. This alone may be reason to request a special method, but if one of the schools is a nursery school it could drag down the recovery rate of the Trust.

It is therefore worth thinking whether there is anything like these examples which would prevent the standard method giving a fair and reasonable result.

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Payrolling of benefits

The idea of payrolling of benefits in kind is not a new one. It has been available in the UK on a voluntary basis since April 2016. However, as part of the Government's plans to modernise the UK tax system and accelerate the payment of income tax and Class 1A National Insurance (NI) on the provision of taxable benefits, the mandatory payrolling of benefits in kind will, following an announcement made on 28 April 2025, be delayed by one year and will come into effect from April 2027.

Whilst the draft legislation, together with any consultation documents, are due to be issued over the summer, we consider the key points which all schools need to consider and start planning to implement ahead of April 2027.

The comments set out in this article also take into account some of the latest details included in HMRC's 28 April 2025 announcement.

The proposal

The proposal is that taxable benefits will form part of the payroll real time reporting to HMRC. The value of the benefits provided during the pay period, for example weekly, bi-monthly, four weekly, or monthly, will be added to the employee's salary for the purpose of calculating the amount of income tax to be deducted. Schools will also pay the Class 1A National Insurance due on the value of the taxable benefits provided each pay period, as opposed to annually in July each year, which will be done via the full payment submission (FPS).

One of the advantages for the Government will be the earlier receipt of tax revenue.

What was included in the 28 April 2025 announcement?

The technical note published on 28 April 2025 included a series of points which schools will need to consider ahead of April 2027.

- The FPS submissions for RTI will be amended to allow full reporting of benefit in kind values and taxable expenses. These values will determine the amounts that will be subject to income tax and Class 1A NI in the relevant pay period.
- HMRC expects reasonable estimates of the benefit in kind values to be reported.
- The employer will be required to adjust any value where this has previously been understated during the year.
- HMRC has confirmed that penalties and interest will not be charged for 2027/28 for any inaccuracies. However, late filing penalties will still apply.
- Interest and penalties will be applied from 2028/29.
- There is no requirement to register for the mandatory payrolling of benefits. Registration is required if employers wish to voluntarily payroll benefits prior to the 2027/28 tax year.
- Mandatory payrolling of benefits will not apply to beneficial loans or taxable living accommodations.
- Once the mandatory payrolling of benefits comes into effect, if an employer wants to payroll the benefit in kind due on beneficial loans and taxable living accommodation, this can be done on a voluntary basis. This can be done via a separate registration service which is expected to open from November 2026.
- HMRC have confirmed that the forms P11D and P11DB will be retained for a temporary period for the reporting of taxable living accommodation and employee loans.

The technical note also confirms that the maximum amount of tax which can be collected via the payroll will be restricted to an upper limit of 50% of the employee's salary. However, further guidance is expected ahead of 6 April 2027.

What schools need to do now!

The delay in implementing the new legislation partly recognises the additional time all stakeholders will need ahead of 6 April 2027.

The challenges should not be underestimated and will require a well-structured plan to help ensure:

- You have appointed someone to oversee the transition process.
- Check with the benefit providers that they will be able to provide you with data for inclusion within the payroll.
- Identify what changes need to be made to the payroll data each pay period (see comments below).
- Whether the payroll is outsourced or managed in-house, ensure sufficient time is available to upload all of the changes which need to be made to the payroll.
- Educate your employees about the changes. Whilst HMRC have stated that no restrictions will be included in an employee's PAYE code number for any taxable benefits (other than living accommodation or beneficial loans), it is recommended they review their code number to ensure tax is not being collected twice, but also understand what changes will be shown on their payslip from April 2027.

Payrolling of benefits will require schools to be able to manage any changes to the benefits provided which may arise throughout the year, including, for example:

- Any joiners and leavers to the benefit arrangements provided by the school.
- Benefit renewal updates.
- Changes in the benefit providers.
- Personal changes, such as, benefits being extended to include/remove family members or the level of personal contributions.

Any changes to the above will alter the value for payrolling purposes, a point many employers who opted to voluntarily payroll benefits overlooked. The review of the benefit arrangements will need to be reviewed each pay period to ensure the correct amount of income tax and Class 1A National Insurance is paid over to HMRC.

Whilst there are two 'exceptional' benefits which will continue to be reported, the P11D will also be used to capture any shortfall in the value of the benefits in kind reported through the payroll. A further approach for managing the shortfall in the benefits will be via an amendment to the final FPS for the year.

We expect further guidance will be published by HMRC.

PAYE settlement agreements

Some schools make use of PAYE settlement agreements. They are used to help meet the income tax and National Insurance liabilities due on benefits or taxable expenses which fall within one of the following categories:

- Minor in nature; or
- The benefit is provided on an irregular basis; or
- It is impractical for the benefit to be reported any other way.

However, it is important to ensure that where a school has a PSA the following points are observed:

- An enduring contract is in place with HMRC.
- It covers all of the costs the school is proposing to pay on behalf of the employees.
- The calculations need to be submitted by the date included in the agreement, typically, 31 July following the end of the tax year.
- The income tax and National Insurance liabilities are paid by the following 19 October each year.

The introduction of the mandatory payrolling of benefits will not affect PAYE settlement agreements. However, it is recommended that schools review how they make use of them to ensure they are helping to fulfil employment tax reporting commitments.

Please contact a member of the employment taxes team at HaysMac should you want to discuss matters further.

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The new Charity SORP 2026

Following an extensive development process, the SORP-making body launched its public consultation on the Exposure Draft SORP on 28 March 2025. Following the consultation, the final version of the SORP is expected to be published in the Autumn of 2025. The SORP will be effective for periods commencing on or after 1 January 2026.

The aim of the new SORP is to bring the standard in line with the changing requirements of FRS 102 for areas such as revenue recognition and lease accounting, and to adjust the reporting requirements on charities by ensuring they are proportional to the scale of operations undertaken.

The SORP is relevant for all Charities including independent schools preparing their accounts on an accruals basis, which is required if:

- The charity is incorporated at Companies House.
- The charity has gross income over £250,000.
- The charity's governing document requires accounts to be prepared on an accruals basis.

This is unchanged from the previous SORP.

Changes at a glance

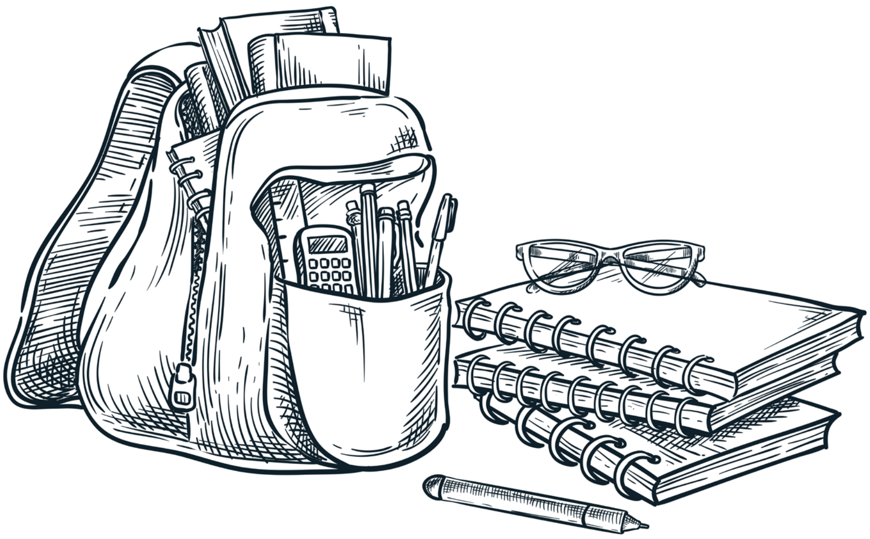
- Adoption of a tiered approach based on gross income thresholds.
- Increased requirements for the Trustees' Annual Report.
- Changes to revenue recognition.
- Operating leases moving on balance sheet.
- Cash flow statement preparation requirements have been adjusted.
- Total return and social investment changes.

A three-tiered approach

The Charities SORP 2026 introduces a new three-tiered approach based on income levels to ensure proportionate reporting, including environmental, social and governance issues. There are also additional reporting requirements for impact reporting, reserves, going concern and volunteers. The tier thresholds are as follows:

Tier 1	All charities applying accruals accounts and with a gross income of not more than £500,000.
Tier 2	All charities with a gross income falling above the tier 1 threshold and with a gross income of not more than £15 million.
Tier 3	All charities with a gross income falling above the tier 2 threshold.

The tiered requirements are explained further in each of the following sections. Each module of the new SORP begins by explaining how the requirements apply for each entity.



Changes to the Trustees' Annual Report / Governors' Report

- Impact reporting – required for Tiers 2 and 3, explaining the impact the charity's activities have had on the beneficiaries.
- Legacies – required for Tiers 2 and 3, explaining how it is recognized given complexities in this area.
- Sustainability reporting – required for Tier 3, but encouraged for all.
- Volunteers – required for all. To give an idea of the scale of volunteer activities and their contribution.
- Reserves – required for all; drive to improve understanding and how the reserve levels link to the going concern assessment.
- Plans for the future – required for all. Historically only for larger charities.

For schools, a number of the above are already frequently adhered to in their reporting. The key changes will be more disclosures on legacies, volunteers and sustainability for larger schools. Schools that fall into the Tier 3 category will be required to provide details on social opportunity, privacy and data security, board diversity and business ethics.

Revenue recognition

To ensure compliance with the updates to FRS 102, recognition of income from customer contracts will now follow the five-step model introduced in that standard. The five steps are as follows:

- Identify contracts with customers
- Identify performance obligations
- Determine transaction price
- Allocate the transaction price (to each performance obligation)
- Recognise revenue as performance obligations are satisfied

While this is unlikely to affect the income recognition for core school fees, there may be impacts on the timing of income recognition from fee deposit schemes or trading activities. We recommend that an assessment is made of each individual income stream to identify the amount and timing of income which will be impacted by the new recognition criteria. Be mindful that revenue may be recognized differently (usually for more complex contracts), so if you have a number of these then you should be mindful of any borrowing covenants.

Operating leases moving on-balance sheet

Currently operating leases are treated like rental payments through the Statement of Financial Activities. Going forward there will be a requirement to capitalise the majority of these leases by recognizing the present value of the lease payments as an asset, which will be depreciated over the lease term. There will be a corresponding lease liability in the balance sheet as well, also held at present value of the remaining lease payments. This will overall increase assets and liabilities, and EBITDA as well.

Action for now would be to review your current operating lease arrangements, and identify which will be brought on balance sheet as there will be some exemptions for low value or very short leases. Consider what record keeping could assist with the financial statements preparation now too, and also review loan covenants (due to changes in EBITDA).

Cash flow exemptions

The new SORP proposes to increase the gross income threshold for preparing a cash flow statement from the current level of £500k to £15m. This means that Tier 1 and 2 entities will not be required to prepare a cash flow statement under the SORP. Be aware however that incorporated charities may still be required to prepare a cash flow statement if it is required under FRS 102. This will be the case where they no longer meet the definition of a small company. As a reminder, a company is small if it meets two out of three of the following criteria (for periods starting on or after 6 April 2025):

- Gross income of up to £15m (in line with Tier 2 threshold for Charity SORP purposes);
- Average employee numbers of 50 or fewer; or
- Balance sheet total of up to £7.5m.

Total return and social investment changes

The SORP has been updated to reflect changes made under the Charities Act 2022, which came into force on 14 June 2023, when trustees were given power to borrow from permanently endowed funds alongside the power to make social investments with a negative or uncertain return. The SORP introduces disclosure requirements for the total amount and the return of such investments, with details of how any losses have been offset in the period. This applies to all charities.

For social investments, significant changes have been made to terminology, disclosure and presentation. Tier 2 and 3 charities must also explain their social investment policies and how their investments have contributed to the charity's purpose within the Annual Report.

Transitional arrangements

For previous operating leases, no restatement of comparatives is permitted. The Right of Use (ROU) asset is set as equal to the lease liability on transition, adjusted for any previously recognised lease payment prepayment or accruals. The cumulative effect of initially applying the standard will be an adjustment to opening retained earnings.

Schools will also need to revise their accounting policies to reflect changes in lease accounting and revenue recognition (where applicable) and to explain the difference in treatment between the current year and comparatives which were prepared on a different basis.

Conclusion

While the new three-tiered approach will be welcomed by many, the changes flowing through from FRS 102 for revenue recognition and lease accounting will present initial challenges. We recommend that you review and collate your lease documentation in preparation for on-balance sheet recognition, and review each individual income stream to assess potential impact of the revenue recognition changes. All schools are different and there will be instances unique to many institutions.

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Digital Platform Reporting

The UK introduced the 'Reporting Rules for Digital Platforms' regulation (the regulation), which aims to ensure tax transparency and fairness in the digital economy, in 2023 with a 2024 commencement date. The regulation requires online platforms to report the income earned by their users to HMRC. Reporting is annually on a calendar year basis, starting from 2024, and is due by the following 31 January.

The initial focus was on online marketplaces but as HMRC guidance has evolved through the first reporting cycle it is now important for all types of organisations including independent schools to be aware of the new regulations and confirm whether they need to report annually.

The regulations target platforms facilitating activities such as the sale of goods, provision of services, rental of immovable property, and other relevant activities where platform users (i.e. third party sellers) generate income.

Key provisions of the regulation

The regulation requires all online platforms to collect and report information about their sellers, including their name, address, tax identification number, the gross amount of sales each seller made, the volume of transactions and other information for each year starting with the year ended 31 December 2024.

This information must be submitted annually to HMRC to allow them to cross-check the income declared by taxpayers with the information provided by online platforms, thereby ensuring compliance with tax obligations.

The aim of the regulation is to ensure information is captured about potential taxpayers by organisations such as eBay, Airbnb, Just Eat or Vinted. However, other organisations may nevertheless qualify if they facilitate transactions between buyers and sellers in a similar way.

What is a digital platform?

An organisation's app or website is a digital platform if

- It connects sellers to customers to supply goods or services (for example, taxi hire, food delivery, the sale of a third party's stock-in-trade); and
- The organisation knows or can easily find out the amount paid to sellers for goods or services.

However if the app or website only connects buyers and sellers who then transact elsewhere, this would not be a digital platform for this purpose.

The following are also not digital platforms

- A website or app selling an organisation's own products – many organisation's own websites would therefore be excluded from being treated as a digital platform.
- A website or app that redirects or transfers users to another app or website to complete their transaction, either with the seller's own website, or via another digital platform. This is the case even if your organisation's website advertises or lists particular products for sale, and even if you earn commission from the "click through" or similar.
- Software that only processes payments, e.g. a service that provides support for one or more websites or digital platforms.

Exclusions from reporting

Additionally, the regulation includes provisions to reduce administrative burdens on platforms.

Sellers of goods with less than 30 active transactions in a year, and receiving less than €2,000 in total, should be exempt from being reported through this process. All sellers of goods exceeding either of these thresholds, and all sellers of services, would need to be reported for the period, however.

An organisation may be an excluded platform operator. This is one that either does not allow sellers to profit from any received payments, or it has no reportable sellers. The organisation nevertheless has a duty to inform HMRC. That is an excluded platform operator.

There is no general exception for the size or nature of the client operating the digital platform, but new reporting platform operators have until the conclusion of their second year of trading to complete the due diligence for sellers on their platform.

Independent schools, charities and other not for profit organisations whose websites facilitate transactions between parents, donors (retail gift aid) or other benefactors will be within scope but may be within the above exceptions depending on the volume and size of individual transactions.

Examples

Scenario	**Is this likely to create a digital platform and reportable for the organisation?**
A school website that provides the facility to order school uniform and equipment from third parties, and collects payments on the third party's behalf	Yes
A school website that links to school uniform vendors but purchases are completed on another website	No
A charity advertising clothing for sale on an online platform such as Vinted, and the charity earns a commission from customers that access it using the link	No
A charity website that allows individuals to make donations and record Gift Aid declarations directly to the charity	No, because there is no "seller" and no goods or services are being provided
A charity website that allows individuals to buy goods that have been donated to the charity	Maybe, in particular if the goods are being purchased under retail Gift aid from the seller, handled by the charity
An online auction to raise money for the organisation	Yes if the organisation handles payments, or is aware of the payments made

The impact

Developing this reporting system requires close cooperation between the finance team, who are likely to be responsible for reporting, and those building and managing the platform who will need to be able to collect the information required form all customers. It requires a relevant robust IT solution to be able to assemble the information accurately and avoid penalties for non-compliance. Data protection regulations also need to be considered, as sensitive information must be safeguarded.

Although not specifically covered by the regulation, platforms may also find they can rely on data they already collect for other regulatory purposes, such as anti-money laundering requirements, to fulfil their reporting obligations.

How can HaysMac support you?

The first challenge for many organisations will be to determine if transactions facilitated via their website or app make them an operator of a digital platform. We can assist organisations with understanding if the regulation will apply to them.

If the regulation applies to your school, then we can advise on the information you will need to collect and report, how to register and notify HMRC, and what exceptions may apply to some or all of the transactions that take place on your digital platform. We can also review the information that your digital platform and other systems currently collect to identify any gaps in information collation to apply with the regulation.

It is important to note that no tax is assessed on the organisation as a result of these filings, which are strictly an information gathering exercise, but HMRC is being used as the collector of the information which will ultimately assist in reducing non-compliance by other tax-payers.

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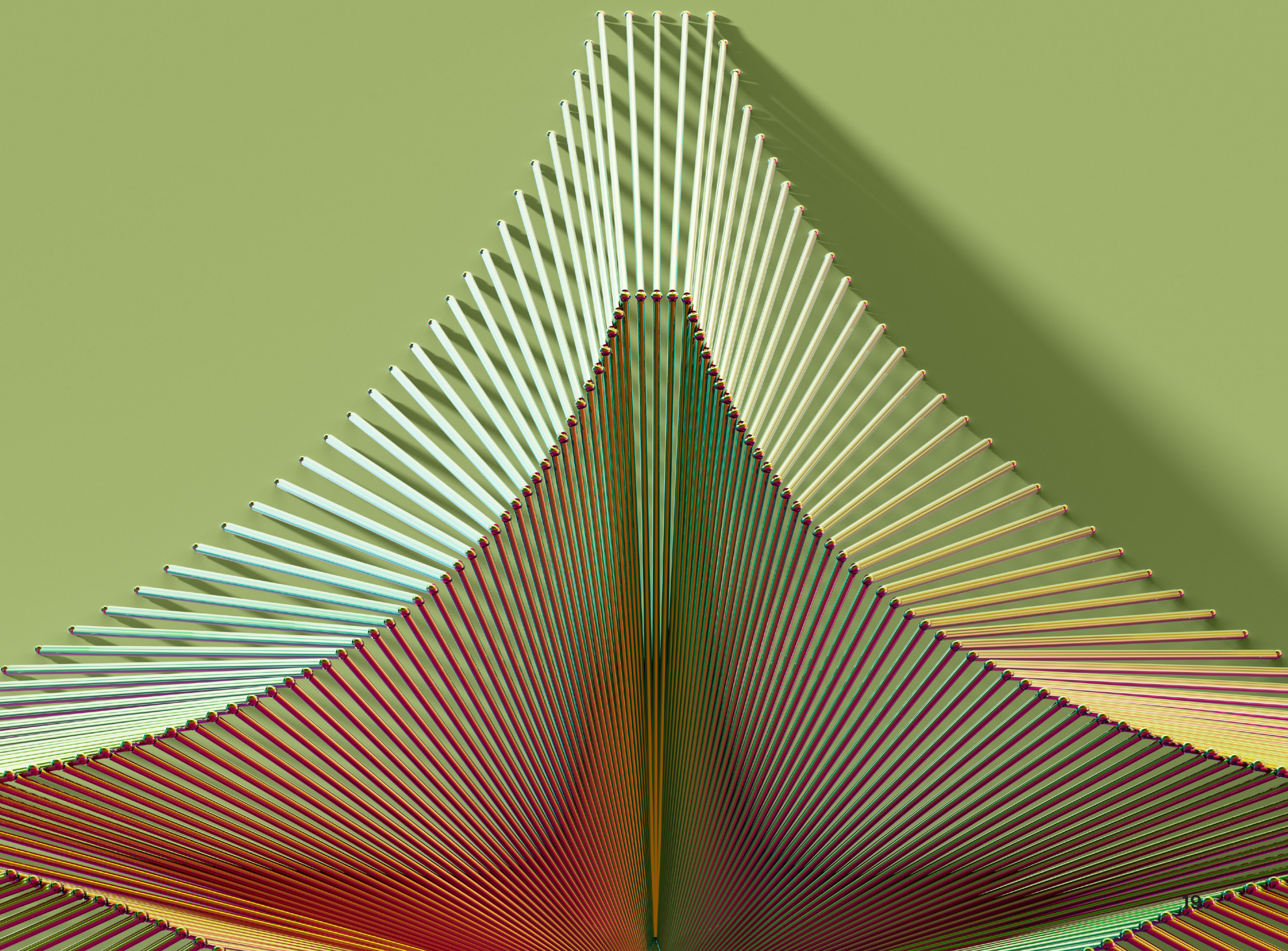

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If you need guidance on any audit and accounting, financial reporting, statutory obligations, funding, VAT, employment tax or direct tax matters you can contact any member of our Schools team.

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