

Helping grandchildren with education expenses to manage IHT

 a 5 minute read

Funding your grandchildren's education to give them a better start in life is a wonderful thing to do and might make good financial sense for you if you're facing an IHT bill. Please read this short article to learn more.

The rising cost of education

Education has the potential to change lives. It can open doors and add richness and meaning that lasts a lifetime. But education can also be costly.

In the UK, the cost of a university degree can vary, but as a guide, the maximum tuition for a course in the UK is £9,250 a year. Add in living expenses such as housing, utilities, groceries, technology, and transport and you can see why the average debt for students in 2020 was £45,000 (according to the House of Commons library).

Student debt can have many negative consequences that carry on far beyond the graduation. A study by University College London in 2018 shows student debt can negatively impact the career choices, home ownership, health and finances of young adults.

If you're in a position to do so, it can be rewarding to help grandchildren or younger family members with education fees to give them a good start in life. And you can also use this as a way to reduce IHT, effectively solving two problems at the same time.



How can paying university fees help me with IHT?

Simply put, the smaller the value of your estate, the smaller any IHT bill would be. So, by helping the grandkids with the cost of education, you can reduce the size of your estate and therefore the amount of IHT due.

But it's not as simple as just handing over a load of cash. There are different options for funding education and some strict rules you must adhere for each.

A quick refresh – What is IHT?

IHT is the tax that must be paid by your loved ones if the value of your estate is worth more than the tax-free amount – anything over the tax-free amount is taxed at 40%.

The tax-free amount does change depending on a number of factors, which a financial adviser can explain.

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Here's a very quick look at some of the options

Options for helping with the cost of education	Why you might do this	Things to consider
Pay all fees in lump sums	Doing this or paying the university direct is probably the most convenient option	This is classed as giving a gift to the grandkids, and for it to be fully IHT free you'd need to live another 7 years. You're giving up control of your money and it may not be used in the way you want it to
Use gift allowances	There are gift allowances that you can use each year which are instantly free from IHT.	The allowances may not be enough to cover the full cost of education. You need to keep detailed records of each gift you give.
Use excess income	If you have more income than you need, you can use the excess to pay for education and it doesn't attract IHT. For example, if you have an income of £3,000 each month and your expenses are £2,000 – you can use that extra £1,000 to help.	You need to make payments on a fairly regular basis to avoid IHT. You also need to be able to maintain your standard of living without dipping into your savings.
Set up a trust	A trust lets you control your money and specify how and when it's used – in this case for education. Money in a trust can also be invested, giving it the chance to grow. Of course, it could also drop in value and be worth less than you put in.	For the money in a trust to be fully IHT free you'd need to live another 7 years. Your adviser can help you choose an investment with a balance of risk and reward you're comfortable with.

What to do next?

This article only scratches the surface of this complicated subject. There are other things to keep in mind. To learn how to help loved ones get a great start in life and reduce or eliminate an IHT bill, please contact a financial adviser.