Funding children through university – do I need to consider taxes?

Sending your child to university can be overwhelming for so many reasons. Much is reported on the costs of tuition fees, accommodation and maintenance, but should we be considering taxes too?

This article aims to clarify some of the misconceptions and concerns around financially supporting your child through University as well as highlighting tax considerations that may be useful for students to be aware of too.

Financially maintaining your student

- Generally, a gift between family members is a potentially exempt transfer ("a PET"). This means that provided you survive seven years of making that gift and don't retain any benefit in it, its value will not be included within your estate on death. If this is not the case, the gift could be subject to Inheritance Tax ("IHT") on your death at 40%.
- However, the maintenance of your (biological, step or adopted) minor children (under 18) or older children continuing in full time education, is exempt from IHT consideration, which means there are no IHT implications of paying tuition fees, accommodation or maintenance.
- Whilst "maintenance" is not defined, case-law provides guidance that this would include, food, clothing and lifestyle costs etc that should be sufficient enough for the dependent to live "neither luxuriously, nor miserably … but comfortably according to their station in life".
- If a student works part-time to boost their income whilst at university, this will not affect the exemption.

Gifts from grandparents

- As the maintenance exemption only applies to parents, support from grandparents may be caught under the PET regime. However, grandparents could use their annual exemption of up to £3,000 per year to make a gift or can gift up to £250 per person a year (provided not mixed with any other exemption or relief) which will be exempt from IHT.

- Alternatively, if grandparents earn more income than they need to maintain their normal standard of living, this excess can be gifted to the grandchildren without any IHT consequences. This is provided the gifting is made regularly (whether monthly, annually or bi-annually etc).

Income Tax on student earnings

- There is often a misconception that students are exempt from tax. Unfortunately, this is not so, however all individuals are entitled to earn up to the personal allowance of £12,570* tax-free.

- In some cases, a student may have an emergency tax code issued when they join a new employment (particularly where they have a part-time job at home and one at University). It may mean that tax is deducted from their earnings when it doesn't need to be. This can be amended by calling HMRC on 0300 200 3300 if students believe their tax code is wrong.

- Alternatively, a tax repayment claim form (R40) can be submitted after year-end to reclaim any overpaid tax.

Buying a home for your student

- With student accommodation rents rising heftily, many parents consider purchasing a home for their child, particularly if rented to others to provide an additional income stream.

- However, if the property is acquired in your name, the additional property 5% Stamp Duty Land Tax ("SDLT") surcharge is likely to apply and you would be liable to capital gains tax ("CGT") on any growth in value on disposal.

- Alternatively, if the property is acquired in the student's name, the higher SDLT does not apply and if they live in the property, there would potentially be full relief from CGT on disposal. However, this does mean you give away the capital to your child, enabling them to sell the property and use the proceeds as they please without your consent.

- Trust arrangements can assist to enable you to retain control over the property whilst benefitting from reliefs only available to the beneficiary student.

Tax efficient student saving

- Whilst not known for having cash to save, it is never too early to encourage students to save if they can. One such tax-efficient plan is the Lifetime ISA which can be used to save for a first home. Up to £4,000 can be placed in these per year, which the government will top up with a 25% bonus. Interest, dividends and gains arising on the savings are tax-free, although the savings can only be used to buy a first home, or used as a form of pension pot at age 60.

- Alternatively, if cash is needed more flexibly, saving up to £20,000 a year (whether earned or gifted to your children) into a regular ISA can still enable the student or you to benefit from tax-exempt interest and, in the case of Stocks & Shares ISAs, tax exempt interest, dividends and gains. Not all ISAs permit flexible withdrawals, but those that do, enable you to put cash back into the ISA within the same year (e.g. by topping up with a holiday job) without reducing the current year's allowance. Always seek financial advice before engaging in an ISA.

- Student bank accounts can also be used which often providing interest-free overdrafts and perks such as cashback or free railcards. Please note that cashback is often taxable and banks will often deduct 20% tax at source. If total income for the year is less than the personal allowance, this withheld tax can also be reclaimed at the end of the tax year via the R40 form.

If you have any questions about the tax implications of funding your child through university, please speak to your tax adviser or contact Jackie Hockney and JackieH@hockneygrey.co.uk.

*Based on tax rates for 2025/26