

Financing UNIVERSITY FEES



The quadrangle at Exeter College, Oxford

At this time of the year, university fees are a topical issue. Many university fees are now as high as £9,250 per annum. Should you consider some living expenses, then the budget for a three-year course is likely to reach £70,000.

WHAT ARE THE FINANCING SOLUTIONS?

The British government has advertised their student loans, their website provides all required information:

www.studentfinance.direct.gov.uk. Any E.U. student can apply for a loan to cover his/her tuition fee in full, some maintenance loans are also available.

These loans will only be repayable once the student earns more than £25,000/year. Nevertheless, one should look closely at the repayment conditions and at the loan's interest rate. During the studies, the interest rate is set at RPI + 3%; once working and earning more than £25,000 and less than £45,000 yearly, the interest rate is set on a sliding scale from RPI, up to RPI + 3%. In 2018/19 the interest rate is $RPI (3.3\%) + 3\% = 6.3\%$.

In France, loans are offered to EU citizens by banks on a school/university by school/university basis. After a first period of 2 to 6 years when the student will finish studying, the loan should be repaid over a period which can be as long as 10 years. The student will need a resident in France métropolitaine as guarantor. Interest rates are set up on a case by case basis from 0.9% up to 4.5%. For a prêt étudiant it is important to set enough time to meet various banks and obtain different offers.

Many parents will be concerned their children will be leaving university with substantial debt.

Another financing solution for a UK Tax resident is the use of an off-shore bond. It implies existing savings from parents or grandparents who will remain in control of the investment.

For some savings properly organised within an off-shore bond, it is possible to access the gain while mitigating taxation. The main tax benefit of the off-shore bond is the gross roll up that will boost the value of the funds. It will also defer tax upon encashment. The bond could be transferred to the child, any tax liability then falling on the student who is likely to be a non-taxpayer.

The child can use the proceeds to meet the first year's university costs, a similar process can be repeated in the subsequent years. When properly addressed the estate planning consequences can be mitigated.

At the other end of the spectrum, parents could increase their revenue thanks to the Rent a Room scheme in the UK which allows to earn up to £7,500 a year tax-free whilst renting a furnished room in their main residence.

In France, there are also exemptions for this type of rental, of 185 € per square metre in Paris and the Paris area and 135 € per square metre in other regions. Above this threshold the additional revenue is to be declared as a BIC (Bénéfices Industriels et Commerciaux) with a 50% rebate.

As always, each situation is different and will require a tailored solution. This is only an overview of the situation; it should not in any way be considered as advice, only an analysis of one's personal circumstances will allow adequate financial planning.

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