Funding Grandchildren’s Education Through Family Wealth

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By **David Ambrose**, 4th September 2026

With the introduction of VAT on private education fees, families may be looking at different ways to help fund their grandchildren’s education. For those with surplus income or family business interests, there may be opportunities to structure these gifts in a tax-efficient way, provided the relevant rules and conditions are carefully considered. It is possible to fund these simply by way of gifts out of excess income. These gifts are not subject to inheritance tax, but care with the amounts and the pattern of giving is required.

Another option would be to set up a business property trust by giving, or settling, some of the shares in the family company into a trust.

What is a Trust?

A trust is a method of separating legal ownership of an asset from beneficial ownership of that asset. There are two main types of trust:

Interest in Possession Trusts

An interest in possession trust is where the beneficiary is entitled to the income from the trust assets, but the trustees maintain control over the capital comprising the trust assets. The trust can specify where the trust capital goes so that it is not under the control of the beneficiary.

Discretionary Trusts

A discretionary trust provides greater flexibility. The beneficiaries do not have an automatic entitlement to the trust assets, with the trustees having discretion over when and how funds are distributed.

This can be particularly useful where beneficiaries are young or where there are concerns about their ability to manage significant sums. Discretionary trusts can also provide opportunities for lifetime and tax planning, depending on the circumstances.

Inheritance Tax on Trusts

To understand the potential benefits and costs of using a trust, it is important to consider the relevant IHT rules. Inheritance tax is generally charged at 40% on death. Assets transferred into a discretionary trust escape this charge (after seven years) but are subject to:

- an entry charge of up to 20% when assets are put into trust
- periodic charges every ten years at a maximum rate of 6%.

The rationale behind the relevant property regime is that the cumulative effect of any entry charge together with the ten-year and exit charges broadly mirrors an inheritance tax charge on an estate. Historically, this is based on the assumption that wealth is transferred between generations every 30 years: one entry charge at 20% and three ten-year charges at 6%, totalling 18%.

There could also be additional amounts due if the person giving the funds to the trust dies within seven years.

So why would someone settle a trust instead of simply giving the money away? One possible answer is that the person to whom you want the benefit to accrue is not responsible enough, or is too young, which raises an interesting proposition regarding income tax planning.

Income Tax Considerations

There can also be income tax considerations where grandchildren are beneficiaries.

If minor children are able to benefit, then the income is ascribed to the parent. However, this does not apply to adult children and, more importantly, grandchildren.

Children are likely to have access to their personal allowances (£12,570) and basic-rate bands (£37,700), which creates a significant tax planning opportunity.

For example, suppose a family company pays a £30,000 dividend to fund, or partly fund, a grandchild’s education. Dividend tax for additional-rate taxpayers can be 39.35%, leaving a net amount of £18,195.

If instead the entire amount were diverted via a discretionary trust, then the amount payable* would be after a personal allowance of £12,570, with the balance of £17,430 charged at a rate of 20%. This would leave a tax saving of £8,319 each year.

*There would be complications because the trust would need to pay tax at the additional rate, and the beneficiary would then pay tax at their marginal rate.

Getting the Funds into the Trust Tax Efficiently

There is one major issue with getting the funds into a trust: inheritance tax charges. Due consideration would also need to be given to latent capital gains, which fortunately can be held over. This then leaves the issue of the entry charge, which can be helped if the assets being put into trust qualify for business property relief.

Business Property Relief

Business Property Relief is an inheritance tax relief designed to prevent trading businesses from having to be sold simply to fund an inheritance tax liability. In broad terms, it reduces the value of assets when calculating inheritance tax.

Where BPR applies, the value of the asset is reduced. BPR can apply to (amongst other things) shares in an unquoted trading company; and certain assets used by a business or company.

There is usually also a minimum ownership period. In most cases, the asset must have been owned for at least two years before the transfer.

Therefore, if the property settled into trust qualifies for full Business Property Relief, the entry charge will be nil. However, it should be noted that there is a lifetime limit of £2.5 million on 100% relief.

A Business Property Trust for the Grandchildren

For families with qualifying business assets, a business property trust may provide one potential way of supporting grandchildren with education costs while retaining a degree of control over how family wealth is distributed.

However, the appropriate structure will depend on the family's circumstances, the nature of the assets involved and their wider estate and succession planning objectives.

Careful planning is essential to ensure that any gifting or trust arrangement is appropriate from both a tax and family wealth perspective.

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