

**VAT: Consideration of the case to extend the education exemption to for-profit providers of Higher Education: a response from the University and College Union (UCU)**

The University and College Union (UCU) is the largest trade union and professional association for academics, lecturers, trainers, researchers and academic-related staff working in higher and further education throughout the UK. We welcome the opportunity to respond to the consultation to the HM Revenue & Customs consultation on extending the education VAT exemption to for-profit providers of higher education.

**Question 1 - Do you agree that such a change will help contribute to competition and benefit students within the HE sector?**

No. UCU is opposed to the proposal in the consultation to extend the education exemption to for-profit higher education providers. We have two main reasons for opposing this policy.

First, we would challenge the assumption that exempting for-profit providers of higher education from VAT is about increasing competition in the interests of students. One of our reasons for being sceptical is that under the current rules for-profit providers are already able to become exempt from VAT. For example, both BPP University College and the New College of the Humanities have adopted not-for-profit subsidiaries to benefit from the VAT exemption.

We believe that for-profit providers have been lobbying for the change to 'eligible body status' because it will allow them to distribute profits to their parent companies. Given that for-profit providers already can and do offer HE courses, the argument for facilitating a diverse and competitive HE sector is redundant. We already have an extremely competitive sector offering students more choice than ever before coupled with very high quality educational standards. There is therefore no benefit to students in making the change as they are already able to choose from a wide variety of courses and providers. In our view the immediate consequence of the HMRC proposal would be to fatally undermine one of the central pillars of 'eligible body' status, namely the bar on distributing profits.

Secondly, we do not believe that the HMRC proposal would create the so-called 'level playing field' desired by this government. Instead, it would allow for-profit providers to deploy their superior ability to raise private capital on the financial markets and thereby reduce their fees and undercut other universities and colleges which do not have such "financial firepower", in search of market share.

To attempt to keep pace, many public universities are likely to seek ways to change their corporate form to become companies limited by guarantee, for example, so that they can attract private investment at the same levels as commercial providers by

creating equity. But only the largest, more elite universities are likely to prosper under such conditions, risking a loss of capacity in the sector if other institutions falter due to the inability to compete financially. This will lead to a narrowing of the options open to students. The provision of smaller, niche courses that are essential in a world-leading HE sector will also be at risk of falling away.

We anticipate that other public universities may be bought out by for-profit providers or private equity funds, to be developed as online, for-profit enterprises, as we have seen in the United States. In the US we have seen the negative consequences of allowing shareholder-driven, higher education companies to proliferate. Senator Harkin's report, in particular, shows how for-profit higher education grew in a very short time to become a public and political scandal, representing bad value for money for students and taxpayers alike.<sup>1</sup> The poor educational experience provided by these companies cannot be described as being of benefit to students. Furthermore there is no guarantee that should the exemption be granted the tuition fees charged to students will subsequently be lowered, or if they are, that the effect will be long term.

At a recent BIS Select Committee the Secretary of State, Vince Cable, was forced to concede that his Department had not carried out a risk assessment of the impact of the proposed VAT exemption for corporate providers on existing higher education institutions. In addition, it appears that there has been no proper risk assessment of the wider fiscal consequences of extending the VAT education exemption in this way (see response to question 10).

For these reasons we call on the HMRC to withdraw the proposal to extend the VAT exemption to for-profit providers of higher education.

### **Questions 2 and 3**

UCU agrees with the definition of HE as used in the consultation document.

### **Questions 4 and 5**

For the reasons previously stated UCU is opposed to extending the exemption to for-profit providers. However, should HMRC decide to recommend proceeding with the exemption we believe option one is the more preferable of the two. In option one the parameters of the exemption are more tightly defined and will apply to a narrower range of institutions subject to a more rigorous system of quality assurance.

This is preferable for the student in being able to compare providers of courses on a like-for-like basis and to be confident of participating in a high quality educational experience.

The risk of a decline the quality of HE provision in that situation is highly likely to damage the reputation and attraction of HE in the UK for overseas students who bring

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<sup>1</sup>United States Senate Health, Education, Labor and Pensions Committee, *For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success*. [http://www.help.senate.gov/imo/media/for\\_profit\\_report/PartI-PartIII-SelectedAppendixes.pdf](http://www.help.senate.gov/imo/media/for_profit_report/PartI-PartIII-SelectedAppendixes.pdf)

in considerable income into this country. It is thus a serious material as well as educational risk

### **Questions 6 – 8**

N/A (not a for-profit provider)

### **Question 9**

N/A (Not an eligible body)

**Question 10 - Do you have any comments on the impacts set out above on for-profit providers if, following the review, a change to the VAT legislation is necessary? Are there any additional impacts, either benefits or costs, that you think will result from either of the proposed options?**

UCU believes that the policy will be detrimental to the UK taxpayer. The value of the loss to the Treasury in terms of VAT exemption for universities and colleges is not known. It is incorporated within a general estimated cost for education of £2,400 million for 2011-12. If the government granted exemption to profit-distributing bodies within higher education this loss would increase, probably by a relatively small amount. But given that this would then create a major precedent within tax law for profit-distributing bodies to claim eligible status within the entire education sector, the loss to the Treasury would increase substantially. And given that undermining one of the main planks of 'eligible body status' creates a major precedent in tax law for 'Profit Distributing Bodies' to argue for exemption across other public services, the potential long-term costs are almost impossible to measure.