



EDUCATIONAL DEEDS OF COVENANT

CHANGES TO THE TAX TREATMENT ANNOUNCED IN THE BUDGET SPEECH ON 15 FEBRUARY 2011

BACKGROUND

The “Educational Deed of Covenant” (EDC) is available to a parent or grand-parent (“the convenator”) by which means to make a tax efficient payment in favour of a student son/daughter or grandson/granddaughter (“the student”).

Under an EDC the convenator promises, for nothing in return, to make a series of income payments to the student. The deed must be capable of lasting at least 3 years.

Once an EDC is executed, the convenator is bound by its terms under general law.

CRITERIA

- 1) The convenator and the student must be related, i.e. the student must be a child or grandchild of the convenator.
- 2) The student is:
 - (i) over the age of 16 but below the age of 18, provided that the fees in respect of the higher education course are met by the Department of Education; or
 - (ii) over the age of 18 years but below the age of 25 and in a full time course of higher education which is capable of running for at least three years.

TAX RELIEF

When the convenator enters into such an agreement each payment made under the deed is a valid transfer of income which reduces the convenator’s taxable income and becomes the taxable income of the student and should be included in his/her income tax return form for all relevant years. If the student’s total income exceeds the personal allowances he/she will pay income tax on this income.

The maximum of covenanted payments allowable as a deduction in respect of each student is restricted to £5,500.

Both parties need to be resident in the Isle of Man for this to be tax efficient. The payer will then get tax relief and the recipient is unlikely to have sufficient total income to suffer any Manx income tax – a tax efficient way of funding a student’s subsistence whilst at college or university.



Tax relief will continue only for those EDCs entered into on or before 5 April 2011, and where the student meets the above criteria at 5 April 2011.

Tax relief for new EDCs will be abolished from 6 April 2011. Therefore, students starting full time education after 5 April 2011, payments made under new EDCs will not qualify for tax relief.

However, tax relief will continue to be available for those EDCs already in place at 5 April 2011.

RECOMMENDATIONS

If your child or grandchild currently meets the above criteria, and you have not yet entered into a Deed of Covenant, we would recommend you consider doing so on or before 5 April 2011 so that you are eligible for tax relief on the payments.

If you would like to know more then please contact
Evelyn Corrin : evelyn.corrin@crowecw.im , John Cowan : john.cowan@crowecw.im
or Elaine Rudge : elaine.rudge@crowecw.im

Crowe Clark Whitehill LLC, 6th Floor, Victory House, Prospect Hill, Douglas IM1 1EQ
Tel: 01624 627335; Fax: 01624 677225; Web: www.crowecw.im