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Course **APS VAT and Other Indirect Tax**

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Section 1	**3043**	**14952**	**17989**
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Answer-to-Question-_1_

REPORT ON THE TAX IMPLICATIONS OF AN ALTERNATIVE METHOD OF STRUCTURING THE PROVISION OF EDUCATION FOR THE BOARD OF SANGAVEERA COURSES LTD

30 October 2025

For: The Board of Sangaveera Courses Ltd
Prepared by: Ingenuum LLP

1 Introduction

1.1 This report has been prepared based on the letter from David Sangster on 28 October 2025 to advise on the tax implications of how to structure the provision of education from teachers.

1.2 The report has been prepared based on the information provided in the letter dated 28 October 2025, the inital meeting with David Sangste, and the email from Dr Jonathan Elias dated 25 October 2025. If any of our understanding of the facts are incorrect, please let us know as this may impact our conclusions.

1.3 This report has been provided for the benefit of the Board of Sangaveera Courses Ltd, the report should not be relied on by third-parties. In the event you wish to share this with a third-party, please seek our prior consent.

2 Executive Summary

2.1 We have identified that Sangaveera has been treated the income of TEFL as standard rated instead of exempt. A correction should be processed to reclaim the additional VAT paid and the price charged for TEFL can be reduced to match or better competitiors. There is a potential output VAT reclaim of £800,000 which input tax will need to be deducted from.

2.2 We would not recommend using Option A to buy in and resell the teaching from the teacher as HMRC is likely to view the teacher as employed. This would be the case if they were acting as a sole trader or through a personal trading company where they owned more than 5% of the shares. If the teacher is employed they would have suffered the costs of setting up alone and would be incorrectly recieving the income. HMRC would demand for NIC's and income tax to be payable on the income to correct the position.

2.3 We would also not recommend Option B as when Sangaveera is acting as an undisclosed agent from a VAT perspective, they are recieving and resupplying the teaching services, that will again trigger the employment rules and similar consequences to Option A. In addition there will be complexities around the arrangement and invoicing for the commission.

2.4 In your intitial information, there has been no decisive reason on why you wish to terminate the employment of the TEFL teachers. As Sangaveera is retaining the other employees, we would suggest the most efficient structure would be to retain the four employees Sangveera currently have for TEFL. Instead of making the payment of £50,000 per annum you would continue to pay the current salary.

2.5 We understand this restructing is to save costs and increase revenue, the release of classroom space for letting, the reduced price of TEFL edcuation and the wider scope for individuals to access the online services should provide this without the tax implications of restructing the employment.

2.5 For the VAT treatment of the digitally supplied education there is a risk this could fall into the digitally supplied services rules that would alter the place of supply to the customers location. To avoid this, we would recommend ensuring there is greater interaction in the online courses as the current proposal creates a risk of overseas VAT liabilities.

2.6 For the change in the provision of course manuals, where these are provided online in the package of education, they would be viewed as a single supply from a VAT perspective and follow the treatment of the education (exempt or standard rated). Where a physical book is provided seperately this would be zero rated under either the exemption for zero rating if the customer is based in the UK, or the zero rating for exports if overseas.

2.7 For the provision of French, Spanish and German classes, these supplies would not be exempt from VAT and should be subject to the standard rate of VAT (subject to the point on digitially supplied services above).

2.8 For the letting of additional classroom space, the supply would be exempt as there is no option in place. As it is likely any leasees will be partially exempt or have non-business activity, we would recommend that the property is not opted.

2.9 In the report we have firstly outlined the tax considerations of moving a part of the teaching online. We have then outlined the best method of structuring the purchase of the education and then addressed the additional tax considerations raised in the proposal.

3 Issue identified in the tax treatment of teaching english as a foreign language ("TEFL") historically

3.1 It has been identified that Sangaveera Courses Ltd ("Sangaveera") has been treating TEFL as standard rated for VAT purposes.

3.2 The VAT legislation provides an exemption for the teaching of TEFL by a commerical body. Sangaveera should not have been charging VAT to customers as the supplies should have been exempt and should have been restricting the recovery of input tax on supplies.

3.3 We have mentioned this as the beginning of the report as this is of importance when assessing the proposed changes.

3.4 We note that other competitors have been undercutting Sangaveera on the prices of the courses, by removing the VAT charged this should allow Sangeveera to reduce the overall price of the course.

3.4 We understand Sangaveera are looking into methods of increasing revenue. Where there has been an overdeclaration of VAT on sales to HMRC this is likely to have resulted in an overall net overpayment to HMRC.

3.5 The annual fee income is £1m plus VAT, based on a high level estimate the output VAT paid to HMRC on TEFL over the past 4 years would have been around £800,000. This amount is owed back to Sangaveera and you would not need to reimburse the customers on the assumption they are individuals as there would be no unjust enrichment. Sangaveera would need to justify that TEFL was sold at the market rate.

3.6 We would recommend you review this and we request the reimbursement from HMRC as this would increase revenue. Sangaveera would also need to account for the overclaimed input tax.

3.7 We have identified that Sangaveera are partially exempt, using a standard method calculation may not result in a fair and reasonable VAT recover on costs (i.e. if you charge more for providing TEFL per student). If so, it would be worthwhile considering applying to use a special method for VAT recovery going forward as this may result in a fairer recovery position increasing trading profits.

5 Structure of how Sangaveera should purchase teaching

5.1 It is understood from the information provided that in both Option A and Option B, there is an intention to provide some of the courses online, as in the letter from David Sangster dated 28 October 2025, the information on the online courses was only provided under Option B.

Option A analysis

5.2 In Option A the teachers, either as sole traders or through a personal service company will supply education to Sangaveera who will sell this onto the students.

5.3 We would advise against using this option as there are significant risks of HMRC viewing the teachers as 'employed' for a VAT perspective that would lead to additional tax consequences. There are also complexities around the VAT treatment.

Employment issues

5.4 HMRC when viewing if an individual is employed or self-employed review a number of factors to reach a conclusion. The main factors are control, mutuality of obligation, personal service and the duration of the contract.

5.5 From the information provided Sangaveera would be exerting control over the teaching provided by stipulating that all webinars are delivered to a high standard and undertaking quality control checks. Secondly, Sangaveera appears to allude to a contract of personal service as it is mentioned that the teachers need to be exclusive to Sangaveera. These factors combined with the potential that the teacher may be ex-employees are likely to result in HMRC viewing the individuals as employees of the company.

5.6 If the teachers provide the service as a sole trader and they are deemed to be an employee there would be additional costs. Using the payment of £50,000 per annum as a guide this amount would be subject to Class 1B NIC's by Sangaveera resullting in an additional cost of £6,900 annually. The teacher would have to pay Class 1A NIC's and income tax on the amount. As outlined in Appendix A the total cost would reduce the amount actually received to £39,061.68.

5.7 If the techers provide the service as through a limited company. It is likely this would be a personal service company. This condition would be met if the employee owned over 5% of the shares in the limited company. HMRC would review the arrangement to decide if there is off-payroll working using the employment conditions outlined in paragraph 5.5. As Sangaveera would not be a large company for the purposes of off-payroll working, the limited company would be responsible for the tax implications.

5.8 The limited company will need to account for NIC and Income tax on a deemed directly payment. We have not calculated the value of this as it is dependent on costs incurred as well as the payment recieved. Even though this does not directly impact Sangaveera, to meet the income requirements of the teachers the payment to the teachers would need to be increased.

5.9 One benefit of Option A is that there are no agency arrangements and the supplies would be bought in a re-sold. On the assumption the teachers did not make other supplies, their taxable supplies would be below £90,000 so they would not be VAT registered and no VAT would be charged on the supply.

5.10 On balance, due to the complexities around the topic of employment and the administrative issues this could create for the teachers we would not recommend using this option to structure the supply. Sangaveera would be asking teachers to set up on their own and incur costs, but the individuals would be viewed as employees by HMRC and be subject to NIC and income tax on their income.

6 Option B

6.1 In option B, Sangaveera will arrange for external teachers to provide the language courses direct to students.

6.2 It is understood that Sangaveera wants to continue to enroll students, issue invoices and collect payments. In this instance, Sangaveera would be acting as an undisclosed agent as the student would recieve an invoice from Sangaveera not the customer.

6.3 Where there is an undisclosed agent situation there will be the following supplies from a VAT perspective.

6.4 There would be a supply of education services from the teacher to Sangveera as this is an undisclosed agent situation. Only when the agent is disclosed would the supply be directly from the teacher, or their limited company. As noted above, the supply would not be subject to VAT if the taxable annual income is below the VAT registration threshold unless the teacher chose to voluntarily register.

6.4 There would be a supply of education services from Sangaveera to the student and there would be a supply of introductory services from Sangveera to the teacher that would be subject to the standard rate of VAT.

6.5 In this situation, again the teachers would be supplying teaching services to Sangaveera to be sold on. Therefore, the employment rules would again apply and the critiques of Option A would also be applicable to Option B as HMRC would view the employees as employed.

6.6 It has been considered if Sangaveera could act as a disclosed agent in this situation to avoid the employment rules as the teaching servcies would be supplied directly from the teacher to the student. However, from a commerical perspective if a student is enrolled at Sangaveera they would expect to recieve invoices and make payments to Sangaveera. The recipet of invoices from different teachers depending on the class taken would be difficult to justify to a student and result in greater administration for the teacher.

6.7 It has also been considered if a teacher could provide the services not through a personal services company. To do this, they would need to hold less than 5% of the shares. In practice, for the teacher to obtain the income without owning the shares to recieve dividends this is very unlikely to be possible.

7 Option C

7.1 In your intitial information, there has been no decisive reason on why you wish to terminate the employment of the TEFL teachers.

7.2 We understand that you already have eight TEFL teacher, with four wanting to leave voluntarily if you kept these individuals employed.

7.3 Sangaveera would be required to make Class 1B payments on the employees salaries as they have been doing so to date. However, Sangaveera would not be required to pay the additional cost of the teachers setting up alone or risk the potential non-compliance with the law for having not categorising the worker correctly.

7.4 As the alternative options are not viable, this would be recommended. Alongside the suggested changes on the VAT treatment of TEFL supplies and the additional classroom space that can be let Sangaveera will increase their income stream.

8 VAT treatment of TEFL issues

8.1 For the move of TEFL online when supplied by Sangaveera, consideration needs to be given to the VAT implications, for teaching in person the place of supply is always the UK and for TEFL these would be exempt supplies.

8.2 It is assumed from the information that Sangaveera are only making supplies to individuals. The usual place of supply rules dictate that business to customer ("B2C") supplies of services are supplied where the business is located.

8.3 However, there are additional complexities around the digital supply of services. Where a services is digitally supplied the place of supply shifts to where the customer is located. To determine if a supply is digitally supplied HMRC'S guidance notes the importance of interaction.

8.4 For live and interactive webinars, due to the interactive element they do not fall under this legislation.

8.5 However, for the proposed 'simulative' webinar, these may fall under the digitally supplied service rules as the lecture would be pre-recorded, uploaded online and downloadable by the individual. This would create additional VAT consideration for Sangaveera as local VAT regsistrations would be triggered, creating additional VAT compliance and advisory costs.

8.6 We note that there is an interactive element of the course where participants post their questions for the teachers to respond. As this element is not automated and is provided in response to the individual this would not be typical of a digitally supplied service.

8.7 The VAT treatment of these services is therefore contentious. Sangaveera could review the set up of the online training to see if it would be possible to implement more interactive sesssions to fall outside the digital supply of service rules. We note, these would need to be evidenced and could not be artifical.

8.8 If the training could be structured to be more interactive, the supply of TEFL online would continue to be treated as exempt from VAT regardless of the customers location.

9 Additional courses

9.1 The supply of classes in French, German and Spanish would not be a supply of TEFL and would not fall under the exemption. As Sangaveera is not an eligible body from a VAT perspective.

9.2 Sangaveera would need to charge the standard rate of VAT on these supplies, as we have established Sangaveera is partially exempt any costs directly relating to these supplies could be fully recovered but there is likely to be higher amount of residual costs subject to the partial exemption percentage.

9.3 The VAT treatment of the online courses would be dependent on if the courses are viewed as digitally supplied services (as outlined in detail in section 4). If they can be interactive to avoid the obligations under the digital supply of service rules, the VAT treatment would be standard rated.

10 Course manuals

10.1 For the supply of course manuals, the VAT treatment of these individually would be zero rated. Where these are provided as part of the course they would be viewed as a single supply of education and follow the VAT treatment of the overall supply.

10.2 For the online provision of these manuals, on the assumption these are being provided as part of the course fee, the VAT treatment would follow the supply of the education. Please see section 8 for a breakdown on the VAT treatments applicable.

10.3 Where there is an option to obtain a hard copy of the manual, this would be a seperate supply for VAT purposes and subject to the zero rated of VAT. If the customer is not located in the UK the VAT treatment would also be zero rated as Sangaveera will export the goods.

11 Letting out of the additional classroom space

11.1 If Sangaveera have additional classroom space to let out as a result of the increase in online courses there are tax implications to consider. We would recommend considering the type of business that would let the classroom. The default VAT position for the letting of the property is exempt, as no option to tax has been elected for.

11.2 The majority of education businesses are partially exempt or have non-business activity. Consideration should be given to the benefits of opting to tax the property. If the property is opted Sangaveera would be able to recover VAT on the costs, subject to the partial exemption restriction but would need to charge VAT on the sale.

11.3 We would recommend the property is not opted to retain the exempt treatment. As the majority of propspective leasees would not be able to reclaim the VAT, opting the property would reduce the actual fee Sangaveera could charge.

Appendix 1

Implications as a sole trader

Class 1B NIC for Sangaveera= 13.8% x 50,000= £6,900 annually

Additional costs for the individual

Class 1 A NIC off their payment= 50,000- LEL of £6,396= 43,604

Between PT and UEL= 8%= 3,488.32

Income tax= 50,000 minus PA= 37,250

Basic rate= 20% x 37,250= 7,450

Total actually recieved= £39,061.68