

Institution **CIOT - CTA**  
Course **APS VAT and Other Indirect Tax**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID 

| Count (s) | Word (s)    | Char (s)     | Char (s) (WS) |
|-----------|-------------|--------------|---------------|
| Section 1 | <b>3662</b> | <b>17330</b> | <b>20920</b>  |
| Total     | <b>3662</b> | <b>17330</b> | <b>20920</b>  |

Answer-to-Question-\_\_1\_\_

To: Sangaveera Courses Ltd

From: Ingenuum LLP

Date: October 2025

### **Changes to the company's business model**

We have prepared a report analysing the different options for Sangaveera Courses Ltd (SCL) in changing its business model and our recommendations. Our scope of work includes the following:

1. consideration on whether it is beneficial to outsource the teaching;
2. tax deliberations between Option A and Option B alongside suggested amendments to improve its tax position; and
3. other tax issues identified.

Please note that our advice is based on the information provided to us. If you believe that we have misunderstood any of the information provided, please let us know as this may impact our advice. Please note that the advice is meant solely for SCL and should not be provided to any third party without our consent.

#### **1. Executive summary**

1.1 For SCL to operate its new structure, it will need to obtain sufficient information to identify where the student resides to ensure the correct VAT treatment is applied. This may include confirming where the bank account is located and the contact number of the student.

1.2 Note that non UK obligations will likely arise and SCL may be required to VAT register in multiple countries and charge local VAT on those supplies as a result. Where supplies are made in the EU, it is possible to instead VAT register in a single EU location and register for the One Stop Shop scheme (OSS).

1.3 The correct EU VAT rate will still need to be charged for each supply under OSS. Further, the OSS only applies to the EU supplies so if SCL makes supplies students that do not reside in the EU or UK then it will need to seek local VAT advice to determine any VAT obligations or exemptions applicable.

1.4 We would personally recommend that Option B is chosen as this will likely save the most tax for SCL. It will also assist in cash flow as SCL may be able to reduce its quarterly VAT liability to remove itself from the VAT payments on accounts regime.

1.5 We would recommend that certain elements of the proposed structure to be amended to create a valid agency agreement. This includes ensuring that invoices disclose SCL as an agent alongside listing an agent fees well as allowing the teachers to control enrolment and the materials to be taught (see 3.4).

1.6 We understand that SCL may wish to keep its quality standard so it could create a policy guide in what a material should have but should not make it too restrictive that it effectively requires the teachers to use SCL's materials. Additionally, instead of requiring exclusivity of teaching by the teachers, it could instead amend the contracts to ensure that a payment (perhaps an exit fee per student) is made to SCL when a student decides to contract directly with the teacher.

1.7 SCL will also need to ensure that the teachers are acting as self-employed personnel.

We recommend that the teachers set up a company as this is the easiest basis to prove self-employment.

1.8 SCL could instead request that the teachers invoice their amount separately which will help in administrative matters and will not have to keep track of payments for the teacher.

1.9 We believe that SCL should set up a new subsidiary for the online courses. This will allow only the subsidiary to be VAT registered in various countries and should be a fully taxable business. This will help with VAT recovery aspects as well and keep the face to face teaching separately within SCL. Tax obligations and liabilities from the online courses are also kept separate to SCL (see 3.3 and 3.4).

1.10 SCL should ensure that it discloses its historical VAT errors as it has overpaid VAT (see 4.1) to HMRC as soon as possible as the errors are capped to a four year time limit. However, please note that the additional cash will be subject to corporation tax.

1.11 We would recommend that the annual partial exemption calculations are undertaken for the historical error instead of doing quarterly calculations as this can become tedious. SCL can then split the annual adjustment amount across the relevant four VAT returns in equal parts. This approach allows the same amount of VAT disclosure and is only meant to simplify admin which should be acceptable by HMRC.

1.12 Depending on SCL's partial exemption workings, it may also be beneficial to request a special method from HMRC if the normal method is not reflective of SCL's use of its bought in supplies. However, SCL will be required to wait for HMRC's approval to use a different calculations which may take significant time and cost.

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1.13 Books are normally ancillary (whether physical or online) to the courses and will follow the same VAT treatment (see 4.2). However, the zero rating could also apply for the books sold with the VAT exempt courses, which will assist in the VAT recovery of the historical error.

1.14 In the new structure, the physical books that are sold separately will be zero rated regardless of where it is delivered. SCL will need to make sure that it has an EORI number set up and pay for freight agents assistance in exporting goods outside the UK and importing it elsewhere.

1.15 SCL is unlikely required to opt to tax the properties for letting out the accommodations as we expect that the lettings will be for short stays. Further, if SCL lets out to eligible bodies then any option to tax could be disapplied (see 4.3).

1.16 The activity of letting out the properties may fall under the appropriation rules (see 4.3) and corporation tax may become payable. There is an election to defer the gain and instead reduce the base cost.

## **2. Consideration in employing teachers**

### 2.1 VAT

For VAT purposes, the proposed structure may potentially change the VAT liability of the supplies SCL makes.

For a supply to be regarded as a supply of education, the teaching by teachers should be in real time (ie either face to face or possibly through a live webinar). The proposed changes seems to indicate that the simulive webinar allow a pre-recorded session with no

live teaching which cannot be regarded as a supply of education.

HMRC is likely to regard the simulive webinar as an electronic supply of services. The VAT liability between the two supplies are still 20% if supplied in the UK. However, the place of supply rules differ between these two.

The place of supply in SCL's original supplies is where the teachers were located (ie the UK) so UK VAT is chargeable to its supplies of education. In the proposed change, the supply is deemed to be taken place where the student enjoys the service. This means that if the student is based outside the UK, then UK VAT is not chargeable.

We noted that the English courses are aimed at non native English speakers, who may reside in the UK or outside the UK. SCL will need to obtain sufficient information to identify where the student resides to ensure the correct VAT treatment is applied. This creates additional administrative work for SCL. This may include confirming where the bank account is located and the contact number of the student.

Note that non UK obligations will likely arise and SCL may be required to VAT register in multiple countries and charge local VAT on those supplies as a result. Where supplies are made in the EU, it is possible to instead VAT register in a single EU location (eg Northern Ireland which is within the EU VAT rules for certain supplies despite Brexit) and register for the One Stop Shop scheme (OSS). The OSS will simplify the administrative effort required to VAT register in each EU location, but this does not mean it simplifies the VAT chargeable to the supplies. The correct EU VAT rate will still need to be charged for each supply. Further, the OSS only applies to the EU supplies so if SCL makes supplies to students that do not reside in the EU or UK then it will need to seek local VAT advice to determine any VAT obligations or exemptions applicable.

## 2.2 Direct tax

For corporate tax purposes, all income received (even if obtained from outside the UK) is chargeable to tax. Any costs incurred for these supplies is deductible subject to the usual corporate tax rules. Note that SCL may incur corporation tax outside the UK on top of the tax incurred in the UK. Most countries will have a double treaty with the UK, which limits the tax charged to the UK rate so HMRC will provide a refund or reduce the corporate tax chargeable for SCL.

## 2.3 Commercial

We note that this specific change to the business model will only occur if SCL stops employing its teachers and outsource these instead. Students have expressed an interest in online education and on the basis that most of its teachers will be retiring or are planning to set up companies, then it makes sense to outsource the teaching instead.

## **3. Tax implications between Option A and B**

### 3.1 Option A

In this option, we understand that SCL will buy in services from the teachers and will continue making supplies of the courses to the students.

#### *3.1.1 VAT*

To identify the VAT treatment of the supplies from the teachers to SCL, we must first look at whether the teachers are employed or self-employed. In the current business model, the teachers appear to be employed by SCL. As such its salaries are not

chargeable to VAT as these are not considered VAT supplies.

In the proposed amendment, SCL is hoping to contract the teachers directly (or via their companies). As such, we would expect that contracts are written up in a way that will indicate their self-employment. Favourable indicators would include that the teacher is responsible for finding a replacement in the event of illness and the teacher's ability to accept or reject students. The contracts must also reflect the commercial reality of the arrangement.

On the basis that the teachers are self-employed then the costs of the teachers of £50,000 per annum will not be subject to VAT, provided that they are not VAT registered. It does not seem likely that any of the teachers will breach the VAT registration threshold (currently set at £90,000) but note that some of the teachers may decide to VAT register earlier to recover their VAT costs. If the teachers are VAT registered, then VAT is due on the £50,000 - the VAT amount is dependent on whether the contracts indicate VAT is exclusive. If the contract does not make any mention of VAT, then the £50,000 is VAT inclusive.

If the employment status of the teachers are as an employee of SCL, then there will be no VAT incurred on their salaries.

### *3.1.2 Direct tax*

Simiarly, it is important to identify the employment status of the teachers for direct tax purposes. If the teachers are treated as employees of SCL, then the salaries will be liable to income tax, employee (Class 1) and employer (Class 1A) NICs which will need to be collected by SCL via the Pay As You Earn scheme.

If the teachers are self-employed, then SCL will still retain its liabilities in collecting income tax and NICs despite it being the teacher's responsibility to pay the tax. Note that instead of Class 1 and Class 1A NICs, a self-employed individual will pay Class 2 and Class 4 NICs.

It will be useful to ensure contracts confirm that any tax liabilities is borne by the teacher, and to request that it confirms its employment status. In the event of an HMRC enquiry, this will assist in confirming the employment status and in the event that HMRC disagrees, any tax liabilities will not be SCL's issue.

Where SCL contracts with the teacher's company, then it is not required to withhold income tax or NICs due by the teacher

### 3.2 Option B

In this option SCL acts as an agent for the teachers.

#### *3.2.1 VAT*

For SCL to act as an agent, then it must ensure that the teachers are self-employed. If HMRC considers otherwise, then the agency rules for VAT cannot be applied and therefore the full £50,000 is chargeable to VAT and is payable to HMRC by SCL.

When determining whether SCL acts as an agent, key factors include:

- a. SCL passes on the service and makes no alteration to the service; and
- b. SCL discloses that it is acting as an agent to students.

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Where SCL is acting as an agent, then only the commission is liable to VAT. This means that £40,000 (80% of the £50,000) is liable to VAT and as in Option A, depends on the VAT status within the contract. The remainder 20% will not be liable to VAT provided the teachers are not VAT registered.

This option also benefits the teachers as they will not have VAT obligations, and may keep estimate their future turnover (eg if SCL eventually changes its prices) and decide the number of students that they would take on to prevent VAT registration.

### *3.2.2 Direct tax*

The amount payable to the teachers is reduced to £40,000 which SCL will still need to collect income tax and NICs as in Option A. However, as the payable amount to the teachers is reduced, the income tax and NICs collected is also reduced.

Similarly, where SCL contracts with the teacher's company, then it is not required to withhold income tax or NICs due by the teacher

### 3.3 An alternative structure

SCL could instead set up a new subsidiary to provide its new courses. The new structure will be fully taxable where supplied in the UK and otherwise outside the scope of UK VAT (but may be taxable in other countries). As such, any costs incurred for the online courses will be recoverable. The new subsidiary can also handle all the taxes that need to be collected from the teachers as well.

Further, SCL can then keep its own business in face to face teaching separate (if it decides to continue this in a reduced capacity) and retain the properties. SCL will also not

be liable to VAT register in other countries as this will be the subsidiary's obligation and help keep the face to face and online teaching separate.

The tax impact does not change for the subsidiary, but this keeps any tax obligations and liabilities from the online courses separate to SCL.

### 3.4 Recommendation

We would personally recommend that Option B is chosen as this will likely save the most tax for SCL. In particular, there will be less VAT payable to HMRC as the only the agent commission is chargeable to VAT. This is likely the reason why other competitors are charging 12.5% cheaper fees compared to SCL. This will also assist in cash flow as SCL may be able to reduce its quarterly VAT liability to remove itself from the VAT payments on accounts regime.

We would recommend that certain elements of the proposed structure to be amended to create a stronger agency agreement. This includes ensuring that invoices disclose SCL as an agent alongside listing an agent fee as well as allowing the teachers to control enrolment and the materials to be taught. We understand that SCL may wish to keep its quality standard so it could create a policy guide in what a material should have but should not make it too restrictive that it effectively requires the teachers to use SCL's materials.

Additionally, instead of requiring exclusivity of teaching by the teachers, it could instead amend the contracts to ensure that a payment (perhaps an exit fee per student) is made to SCL when a student decides to contract directly with the teacher. This would increase the cost to the teachers but only on at a small scale which should not impact the pricing of the proposed agency arrangements.

SCL will also need to ensure that the teachers are acting as self-employed personnel ie the requirement to search for a replacement when ill and the procuring its own materials to teach. We recommend that the teachers set up a company as this is the easiest basis to prove self-employment.

SCL could also instead request that the teachers invoice their amount separately which will help in administrative matters and will not have to keep track of payments for the teacher.

Regardless of the options chosen, we believe that SCL should set up a new subsidiary for the online courses. This will allow only the subsidiary to be VAT registered in various countries and should be a fully taxable business. This will help with VAT recovery aspects as well and keep the face to face teaching separately within SCL. Any liabilities arising from the online courses will also be limited to the subsidiary alone.

#### **4. Other matters**

##### 4.1 VAT error

Note that the provision of teaching English as a foreign language (but not other languages or courses) is exempt from VAT. As VAT has been over-paid, SCL should ensure that it discloses the error to HMRC as soon as possible as the errors are capped to a four year time limit. It is also likely that SCL has over-recovered input tax as part of it will relate to teaching English courses and will also need to be disclosed in the disclosure.

This will also mean SCL is a partly exempt business and will be required to prepare quarterly partial exemption calculations as well as an annual adjustment calculation either

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on the March or June VAT returns. The partial exemption calculations should be based on its taxable turnover against total turnover.

As the historical VAT error will require partial exemption calculations, we would recommend that the annual calculations are undertaken for partial exemption purposes, and split the annual adjustment across the relevant four VAT returns in equal parts as the quarterly calculations can become tedious and complex. Further this approach allows the same amount of VAT disclosure and is only meant to simplify admin which should be acceptable by HMRC.

Overall, we expect that the disclosure will allow a significant amount of cash back to SCL as the output tax error is likely larger than the input tax error. However, please note that the additional cash will be subject to corporation tax.

Further, any capital assets that fall within the capital goods scheme will also need to be monitored and VAT recovery will be subject to its partial exemption position. Note that SCL will be required to monitor its capital assets that fall within this scheme for 10 years beginning from the date the asset was used.

Depending on SCL's partial exemption workings, it may also be beneficial to request a special method from HMRC if the normal method is not reflective of SCL's use of its bought in supplies. However, SCL will be required to wait for HMRC's approval to use a different calculations which may take significant time and cost.

We would also note that unjust enrichment rules in this case. Note that the onus is on HMRC to prove that SCL would obtain an unjust enrichment in the event of a VAT repayment claim. However, we do not believe this may apply as SCL's fees (with the VAT incorrectly charged) are likely market price. Although the competitors prices are

12.5% cheaper, it is evident that this is not as a result of SCL charging VAT (as it would have been closer to a 20% difference instead).

#### 4.2 Printed courses

The current structure requires that the books are charged with the same VAT that is due on the courses. This is because the books are treated as ancillary to the courses and therefore follows the VAT liability of the courses. As such, any books sold with the English courses are exempt from VAT and any books supplied with other courses are standard rated. The zero rating could also apply for the books sold with the VAT exempt courses, which will assist in the VAT recovery of the historical error.

In the new structure, the books are provided online, and similar rules will still apply. However, these will follow the VAT treatment of the online courses, which will mean that non UK VAT may also be applied.

Where physical books are sold in the new structure, these will be zero rated regardless of where it is delivered. It will need to make sure that it has an EORI number set up and pay for freight agents assistance in exporting goods outside the UK and importing it elsewhere.

#### 4.3 Accommodation lettings

Accommodation will normally be exempt, however if SCL decides to provide short stays (similar to a hotel) then the supply is standard rated without the need to opt to tax the properties. As such, any VAT incurred in the cost in alterations / renovations will become recoverable.

However, if SCL is letting it out to eligible bodies (eg schools or charities), then the option to tax may not be beneficial as it may be disapplied.

Further note that the properties may fall under the appropriation rules where movements from fixed assets to current assets (as SCL will let these out) is subject to corporation tax. This is calculated at the market value less the base cost. There is an election to defer the gain and instead reduce the base cost.

#### 4.4 Signing up teachers qualified in languages other than English

Note that there is a possibility that these teachers could be based outside the UK. If this is the case, then the amount payable to these teachers for the simulative webinars will be reverse chargeable by SCL. VAT recovery on the reverse charged must be based on the partial exemption percentage (so if the activity is undertaken by a new subsidiary then there will be no VAT costs).