

All these examples use the current VAT rate of 20%, and the current VAT registration threshold of £85,000.

This can be a fraught and confusing area.

No Agency Agreements

A workshop is being run which brings in gross revenue of £10,000. The studio hosting is having 40% and the teacher 60%.

Suppose the studio is vat registered, and the teacher is not. There are two choices as to how the proceeds split:

|                       | Split after vat £ | Split before vat<br>£ |
|-----------------------|-------------------|-----------------------|
| Revenue from Workshop | 10,000            | 10,000                |
| VAT                   | 1,667             | 1,667                 |
| Studio share          | 3,333             | 2,333                 |
| Teachers share        | 5,000             | 6,000                 |
| VAT to HMRC           | <u>1,667</u>      | <u>1,667</u>          |
| Turnover for VAT      |                   |                       |
| Studio                | 10,000            | 10,000                |
| Teacher               | 5,000             | 6,000                 |

It can be seen there is potential for confusion here if contract terms aren't clear between studio and teacher.

What if the studio wasn't vat registered? Well there is no vat due, but £10,000 turnover towards VAT threshold.

Disclosed Agency

Example as above, but a disclosed agency agreement is in place where by the studio acts as the teachers agent. A disclosed agency means that the agency agreement is notified to the public.

A workshop is being run which brings in gross revenue of £10,000. The studio hosting is having 40% and the teacher 60%.

|                         | £          |
|-------------------------|------------|
| Revenue from Workshop   | 10,000     |
| Studio share            | 4,000      |
| VAT on studio share     | 667        |
| Studio share net of VAT | 3,333      |
| Teachers share          | 6,000      |
| VAT to HMRC             | <u>667</u> |
| Turnover for VAT        |            |
| Studio                  | 4,000      |
| Teacher                 | 10,000     |

Here the terms are clearer between studio and teacher, and the vatable turnover for the studio is less; however the teachers turnover is higher, which may be a problem if the teacher is not vat registered as is close to the threshold.

The teachers turnover includes the full workshop revenue as the studio is their agent. The studio fee is deducted in the teachers accounts for Self Assessment.