

## Principal or agent

### [A1 Lofts Conversions Ltd](#)

The above case was heard in 2010. It concerned an arrangement whereby A1 Lofts Conversions attempted to implement an agency structure whereby it would avoid having to account for VAT on the full value of building works (loft extensions) which it arranged.

The issue of whether a business acts as principal or agent in a supply can be difficult to determine. In this case, the Appellant sought to argue that the contractors were working directly for the home owners and would be responsible for accounting for VAT on their own work, at least to the extent that they were VAT-registered. Where contractors were not VAT registered, this allowed significant VAT savings to be achieved over a situation where A1 acted as principal.

HM Revenue and Customs were successful in their challenge. In a detailed decision, the Tribunal found that the agreement between A1 Lofts Conversions and the consumer, did not change the A1 Lofts Conversions supply to an agency service and that VAT was therefore due on the whole amount. This decision will have resulted in a significant tax liability for A1 Lofts Conversions. The issue is still current with many other businesses attempting to act as agent rather than principal. HMRC periodically review these arrangements and have a high success rate in challenging them.

**4 Eyes Ltd** has recently worked with clients and leading tax counsel to develop an innovative structure that, if implemented, may permit other businesses acting as agents in arranging building supplies, to achieve the necessary separation to be seen as acting as agent rather than principal. This will be of particular interest to businesses working in highly competitive markets where profit margins may be very tight by enabling significant VAT savings. Please contact us if this would be relevant to your business. If you already have a structure in place and would like us to review it in terms of VAT compliance then please contact us also.

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