

Guidance on VAT & commission

Purpose of this guide

The impending change in VAT from 17.5% to 20% has caused concern and confusion in some quarters with regard to the calculation of commission - both venues and agents are concerned that incorrect handling of this change could prove a costly and disruptive error.

Responding to many calls from agents and venues concerning this issue it was examined in a presentation at our recent members meeting, attended by over 100 members. From that a working party has given consideration to the best advice and guidance that the HBAA can offer to its members.

It is not the role of the HBAA to dictate or influence commercial terms between businesses, solely to promote best practice and this guidance notes seeks to address the area of standard and promotional commissions only

The Issue now

The VAT rate increases to 20% in January 2011 - and many pundits are suggesting that in future Government will implement changes in the rate more frequently - possibly bringing it in line with the 25% in other parts of Europe. Many feel that this is the time to revisit the way the calculation is expressed, so that the impact of the current rate change is neutral on supplier and agent, and also so that future VAT rate changes can be weathered simply.

What the Code of Conduct says

This advice was written, n based upon a VAT rate of 17.5%. It is recognised that the change in VAT impacts upon it.

Recommendations

- 1 Neither party should look to gain commercially as a result of any changes in VAT.
- 2 Whether rates are expressed to the market as inclusive or exclusive, commission should start to be negotiated and expressed on the VAT exclusive rate - the most widely spoken of figure, which appears to be acceptable to both sides is either 9.4% or 10%, depending on how the commission agreement was previously expressed. Thus:

How it was expressed	Reconstructed equivalent *
8% + VAT in the VAT Inclusive rate	9.4% on the VAT exclusive rate
8.51% + VAT on the VAT inclusive rate (£8.51 to agent)	
10% inc. VAT on the VAT inclusive rate (£10.00 to agent)	10% on the VAT exclusive rate £8.51 to agent)
* NB: In all cases shown the agent will charge VAT on the commission claimed	

- 4 The agreement should be clear and well documented. It is always our recommendation that agreements between parties are documented to eliminate ambiguity and ensure clarity and understanding.