Article

VAT TREATMENT OF PRIVATE HIRE VEHICLES: CONSULTATION OUTCOME

The Government position on the VAT treatment of private hire vehicles has been published. **Neil Morley** gives an overview of its response

On 26 November 2025 HM Treasury published the *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*.[1]

It presents a summary of the main points raised during the consultation on VAT treatment of private hire vehicles[2] in 2024. Importantly, it also sets out the Government's response, or rather position, following analysis of that feedback.

The consultation had originally been prompted by prominent High Court judgments in 2021[3] and 2023.[4] Those rulings, under private hire licensing law[5], indicated the existence of a regulatory burden on private hire operators to contract with passengers.[6] This, it had been found, should be done in the capacity of principal.[7] Such an interpretation, if correct, raised concern further afield about the potential effects under tax law. One being, as principals, VAT[8] registered private hire operators would be responsible for charging VAT on all fares.[9] Additional apprehension centred around implications for vulnerable customers, fair competition and public finances.[10]

Given this concern, HM Treasury launched a consultation seeking to "understand the potential impacts"[11] and obtain views on "interventions that could help mitigate any undue adverse impacts".[12] Such interventions, which were proposed within the consultation, included:

1. Amendments to private hire legislation (which largely revolved around removal of the private hire operator role and transitioning to a single tier system).[13]
2. Amendments to tax legislation on private hire services (which would allow private hire operators to act as agents for VAT purposes and principals for private hire services). [14]
3. Mitigation of tax implications on private hire services:[15]
    a. Reduce VAT rate for private hire services (which could be set at 0% or 5%).[16]
    b. Introduce a new specific margin scheme for private hire services (which would focus VAT on the margin between the fare charged and driver commission).[17]
    c. Reduce VAT rates on other demand responsive transport (DRT) services (for example bus passes, community transport schemes, etc).[18]

1 See *Government Response to Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025.

2 See *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

3 See *Uber London Limited v Transport for London & Others [2021] EWHC 3290 (Admin)*.

4 See *Uber Britannia Limited v Sefton Metropolitan Borough Council & Others [2023] EWHC 1975*.

5 See Private Hire Vehicles (London) Act 1998 and Local Government (Miscellaneous Provisions) Act 1976.

6 See para. 57, *Uber London Limited v Transport for London & Others [2021] EWHC 3290 (Admin)* and para. 75, *Uber Britannia Limited v Sefton Metropolitan Borough Council & Others [2023] EWHC 1975*.

7 See para. 1.7, *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025.

8 Pursuant to Value Added Tax Act 1994 (as amended).

9 *Ibid.*

10 See para. 1.2, *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

11 See para. 1.1, *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

12 See para. 1.2, *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

13 See paras. 6.5-6.15, *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

14 See paras. 6.16-6.22, *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

15 See Chapter 7, *VAT Treatment of Private Hire Vehicles Consultation,* HM Treasury, 2024.

16 See paras. 7.2-7.3, *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

17 See paras. 7.4-7.8, *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

18 See paras. 7.9-7.11, *VAT Treatment of Private Hire Vehicles Consultation*, HM Treasury, 2024.

After considering the above, the Government response indicated its rejection of all proposed interventions.[19] A commitment however, intriguingly, was given to keep "legislation relating to taxis and [private hire vehicles] under review".[20]

Setting that aside, the Government goes on to note developments "after the consultation period had ended": foremost the Supreme Court,[21] and earlier Court of Appeal,[22] decision to overrule the High Court[23] on the existence of an obligation in England and Wales. The result being provincial private hire operators, if so desired, "could act as agents".[24] Whereas those in London, remain subject to "the requirement to contract as principal".[25]

During that period, the Government recognised some private hire operators attempted to offset VAT implications through use of the tour operator margin scheme (TOMS).[26] The scheme enables private hire operators, who act as principals, to account for VAT, as though agents, on the difference between the fare paid and the costs of supplying the service.[27] When applied, it reduces the VAT rate "to around 4% instead of 20%".[28] This led the Government to observe:

> *…TOMS is a VAT simplification scheme designed for tour operators operating across multiple jurisdictions. It is not designed for the [private hire] sector…*[29]

Going further, the Government states it was never intended for [private hire] or taxi operators.[30] In taking a dim view of this practice, a commitment is given that *HMRC will publish legislation…which excludes suppliers of [private hire] and taxi services from TOMS*.[31] This exclusion, which is the main outcome of the Government response, was to apply from 2 January 2026.[32]

In conjunction with publication of the response, the Government also affirmed its stance on the exclusion of TOMS in its Autumn Budget 2025[33] and tabled a reflective provision in Finance (No.2) Bill. It was finally implemented, and later given effect, in the Finance Act 2026[34] on 18 March 2026.

The Government's response certainly appears to be something of an about-face. The consultation offered a number of interventions, or even solutions, that aimed to ease the burden on the trade. Instead it has, seemingly,[35] closed the door on one of those existing options.

Moving forward, at the very least, private hire operators still using, or wishing to use, TOMS should exercise all due diligence. Professional advice may need to be sought and attention given, alongside an impending Court of Appeal hearing on ride-hailing services[36], to HM Revenue & Customs guidance.[37]

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19 See Chapters 3-5, *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025.

20 See para. 3.8, *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025.

21 See *D.E.L.T.A. Merseyside Limited & Veezu Holdings Limited v Uber Britannia Limited [2025]* UKSC 31.

22 *D.E.L.T.A. Merseyside Limited & Veezu Holdings Limited v Uber Britannia Limited [2024]* EWCA Civ 802.

23 *See Uber Britannia Limited v Sefton Metropolitan Borough Council & Others [2023]* EWHC 1975.

24 See para. 1.8, *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025.

25 See para. 1.8, *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025 (and pursuant to *Uber London Limited v Transport for London & Others [2021]* EWHC 3290 (Admin) and Reg. 9(14) Private Hire Vehicles (London) (Operators' Licences) Regulations 2000 (as amended)).

26 Pursuant to s 53 Value Added Tax Act 1994 and Value Added Tax (Tour Operators) Order 1987 (as amended).

27 See para. 1.9, *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025.

28 *Ibid.*

29 *Ibid.*

30 See para. 5.13, *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025.

31 *Ibid.*

32 See para. 5.14, *Government Response to the Consultation on VAT Treatment of Private Hire Vehicles*, HM Treasury, 2025 and *VAT Tour Operators' Margin Scheme – Supplies by Private Hire Vehicle or Taxi Operators'* Policy Paper, HM Revenue & Customs, 2025.

33 See paras. 2.54 & 4.202, Budget 2025, HM Treasury, 26 November 2025.

34 See s 82 Finance Act 2026 (which inserted s 3A Value Added Tax Act 1994).

35 Note: It is not a blanket exclusion and there are circumstances, if demonstrable, that may permit a private hire operator to use TOMS (see s 53(3A)(a)-(b) Value Added Tax Act 1994 (as amended)).

36 See *HM Revenue & Customs v Bolt Services UK Limited* [2025] (CA-2025-001526)

37 For example, *VAT Tour Operators' Margin Scheme – Supplies by Private Hire Vehicles or Taxi Operators*, HM Revenue & Customs, 2025.