



## Value Added Tax

### Clause 79 Private hire vehicles or taxis

#### Executive Summary

This clause prevents suppliers of taxi and private hire (minicab) rides from using the VAT tour operators margin scheme (TOMS) where VAT is paid only on the gross profit margin rather than on the full fare for a journey.

This follows a court case in March 2025, which saw a tribunal reject HMRC's claim that mobile ride hailing services (such as Bolt and Uber) did not qualify for TOMS. The court found that booking services such as transfers to an airport, were like services provided by a travel agent. An appeal is due to be heard in March 2026. Irrespective of the outcome of this case, clause 79 ends the use of TOMS by mobile ride hailing services.

'Traditional' taxi firms as well as online booking platforms are known as private hire vehicle operators (PHVOs).

The change in definition in TOMS means, in principle, that for online PHVOs, the whole fare would be subject to VAT at the standard rate, not merely the profit margin.

PHVOs mainly operate an 'agency' model, where the fare is supplied to the passenger by the driver, and drivers are generally not VAT registered due to their turnover being below the VAT threshold. Note that London's licensing rules do not allow an agency model, so all fares in London provided by online PHVOs will be subject to VAT because of this clause (unless the fare is bundled in with other travel or accommodation supplies which might make it eligible for TOMS).

## 1. Clause 79 - Private hire vehicles or taxis

### 1.1 *Overview of the measure*

The clause changes the definition of a 'tour operator' so that suppliers of taxi and private hire journeys as principal or undisclosed agent (meaning acting in their own name) are excluded from the VAT Tour Operators' Margin Scheme (TOMS), unless the journey is supplied in conjunction with other specified travel services or the provision of accommodation, listed at subparagraphs (a) and (b) to the new subsection (3A) of section 53 of the VAT Act 1994. The change is effective from 2 January 2026.

#### *Tour Operators Margin Scheme*

The tour operators margin scheme is a VAT accounting mechanism for businesses that buy in and resell travel, accommodation and certain other services for travellers, when acting as principal or undisclosed agent (acting in their own name) in the transaction. The tour operator cannot recover any VAT on the costs of the bought-in services for travellers and does not charge VAT on the whole of its onward supply. UK established tour operators are

deemed to make a single supply to the traveller, and it is the profit margin on the resold services that is the basis for determining the amount of VAT due; the margin is standard rated for supplies made wholly within the UK or zero-rated for supplies that are outside of the UK (or apportioned for a combination of both).

*VAT liability of passenger transport*

In the UK, the VAT liability of passenger transport is zero-rated where the vehicle can carry not fewer than 10 passengers (section 4, Group 4 to schedule 8 VAT Act 1994). As private hire vehicles (commonly known as mini cabs) and taxis are vehicles that seat fewer than ten passengers, the VAT liability of this type of passenger transport is standard rated, provided the driver is a taxable person who is registered for VAT.

For taxi or private hire drivers with an annual income that is below the VAT registration threshold, currently £90,000 in any rolling 12-month period, such supplies are not subject to VAT, as the driver is not required to be registered.

*What issue does the clause address?*

In March 2025, in [UT/2024/000008 Bolt Services UK Limited](#), the Upper Tribunal dismissed HMRC's appeal that mobile ride hailing services should be excluded from using TOMS. Hence, platform operators acting as a principal or undisclosed agent could charge VAT only on the profit margin rather than the full fare of a journey by taxi or private hire vehicle. HMRC are appealing this decision, due to be heard in March 2026. The outcome will now only affect the past position, as clause 79 prevents the use of TOMS from 2 January 2026.

*New position: UK excluding London*

'Traditional' PHVOs outside of London generally use an 'agency model' so were already excluded from using TOMS, as they were not the principal in the business arrangements. Under an agency model, the fare is supplied by the driver to the passenger and is only subject to VAT if the driver is registered for VAT, which normally they are not as their annual earnings are under the VAT threshold. The PHVO charges VAT on its agency fees to the driver, which is not recoverable as input VAT by the driver as they are unregistered. Going forward, mobile ride hailing operators (online PHVOs), may be able to use an agency model outside of London, meaning the VAT treatment of the fare will be down to the VAT registration status of the driver.

Clause 79 does not disturb agency model arrangements, which are longstanding business models. HMRC have a section of their [VAT manuals](#) that set out the VAT treatment for agency models. The arrangements can be complex and there have been numerous VAT cases on this topic over the years.

*New position: London*

Due to London's licensing regulations under the Private Vehicles (London) Act 1998, PHVOs (including mobile ride hailing operators) must act as principal for fares in London, agency models are not permitted. Being a principal or undisclosed agent is key to be eligible to use TOMS, but clause 79 now excludes online PHVOs from TOMS, hence, fares charged by online PHVOs in London will be subject to VAT at the standard rate, irrespective of whether the self-employed driver is registered for VAT or not. If the fares form part of a bundle of services, listed in clause 79 as accommodation or other transport services, TOMS can continue to be used, and VAT will not be due on the full taxi/mini cab fare, only the gross profit margin as previously.

1.2 *CIOT comments*

The clause provides certainty on the VAT liability of mobile ride hailing services by platform operators, insofar as they are excluded from TOMS where the mobile ride hailing operator acts as principal or undisclosed agent (unless supplied with other services of accommodation or transport). As PHVOs cannot use an agency arrangement in London, the supply by the PHVO as principal means that VAT becomes due on the whole fare, irrespective of the self-employed driver's VAT registration status.

- 1.3 Fares booked via online PHVOs in London will remain subject to TOMS where they are supplied along with a booking for accommodation or passenger transport by bus, coach, train, ship or aircraft. If the online PHVOs arrange these type of bookings, the VAT liability of the taxi/mini cab fares will be unaffected by clause 79 as they will be bundled with the other eligible services and taxed on the gross profit margin as previously. It is possible that online PHVOs will seek to increase these types of bundled sales.

- 1.4 The use of agency arrangements by PHVOs outside of London are still permitted (upheld by the [Supreme Court in Uber Britannia Limited \[2025\] UKSC 31](#)), and these agency arrangements already prevent the use of TOMS as the PHVO is not the principal. As clause 79 is only changing the definition of a tour operator for the purposes of TOMS, it has no impact on agency model supplies. This normally means that when a driver, as principal, is unregistered for VAT, no VAT is charged on the fare, even where the fare is booked via an online booking platform who is registered for VAT. The driver will incur VAT on the fees charged to them by the PHVO, which will usually be irrecoverable due to being unregistered for VAT.

- 1.5 Online PHVOs that book fares both in and outside of London and who book additional services for travellers such as accommodation or passenger transport by bus, coach, train, ship or aircraft will have increased complexity in the VAT return, which can mean increased opportunity for mistakes, increasing the exposure to penalties and interest.

- 1.6 Whilst clause 79 will increase the amount of VAT paid by the online PHVO for London fares, the increased price will ultimately impact the customer. This may disproportionately impact lower income households or people with mobility issues where public transport is not accessible. Unregistered drivers will also be impacted as they will not receive the full fare, only 5/6ths of the income, meaning they would have to increase their hours to bring in the same income or face losing income.

## 2 The Chartered Institute of Taxation

- 2.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

- 2.2 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.
- 2.3 The CIOT's 20,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

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For further information, please contact:  
George Crozier, CIOT Head of External Relations  
[gcrozier@tax.org.uk](mailto:gcrozier@tax.org.uk) / 020 7340 0569

The Chartered Institute of Taxation  
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