

iCabbi

VAT Facts That Even Your Accountant May Not Know

Are You Charging Too Much VAT?



Welcome to iCabbi

As a taxi business who engages drivers, do you know that there are different ways to calculate VAT?

It depends on whether your drivers are your employees, if you are acting as an agent or principal, or if you have both types of arrangements in place and can vary whether it is cash or account work.

There are very specific guidelines published by HMRC that are unique to the taxi and private hire industry. However, many taxi firm owners and managers (and even accountants) are unaware of them.

Are you aware of exactly when you should be adding VAT and on what basis?

Are you charging some customers too much VAT and increasing your fares unnecessarily?

Calculating VAT correctly means you avoid any unpleasant shocks (and bills) if you get audited, and may mean you can make your fares more attractive for certain types of customers.

As the owner or manager of a taxi business that operates a number of vehicles, this article gives you an overview of what's liable to VAT and an overview of the different ways that VAT is calculated for taxi firms...

First – What is liable to VAT?

The fares charged to passengers for taxi and private hire journeys are all liable at the standard rate of VAT.

What you may not know however, is that this also includes the following additional charges that you may make for...

- Baggage
- Waiting Time
- Referral Fees (for example, from another taxi firm that you have passed business to)
- Supplying Fuel
- Rental of Vehicles
- Rental of Radios, Apps, Smartphones to Drivers
- Any Administration Charges to Customers.

However, according to guidance issued by HMRC* tips and gratuities voluntarily given by passengers are outside the scope of VAT as they are not regarded as payment for supply.

[*VAT Notice 700/25: taxis and private hire cars. Updated 19 September 2016](#)



Are you a principal or an agent (or both)?

If passengers pay your drivers directly for cash work then you are an agent. You are a principal when you employ drivers or if you have account/regular customers who are allowed to settle their bills periodically.

According to HMRC ([VAT Notice 700: the VAT guide](#))...

“To act as an agent, you must have agreed with your principal to act on their behalf in relation to the particular transaction concerned. This may be a written or oral agreement, or merely inferred from the way you and your principal conduct your business affairs. Whatever form this relationship takes:”.

HMRC give these examples of when you will typically be acting as an agent...

- When you relay bookings to the drivers (usually on a rota basis) for an agreed fee
- Possibly also when you provide them with other services such as the hire of cars, radios, driver apps or smartphones
- Collect fares on their behalf from account customers.

The terms of any contract (written or oral) between you and your drivers and the working practices of your firm will determine whether you are acting as an agent or a principal.

You can find more information on how to decide if you are a principal or an agent [here](#).

VAT on cash and account work

When it comes to working out VAT you also must consider two different types of work that you do, and you must charge VAT differently in each case.

- **cash work** – where customers pay the driver in cash at the completion of their journey, and...
- **account work** – when regular customers (especially companies and organisations) are able to put the journey charge “on account” and pay periodically.

These considerations have significant implications for how (and when) you charge VAT. And they are unique to the taxi industry, which is why many accountants are unaware of these VAT charging rules.

Working out your VAT as a principal

According to HMRC, to work out the ‘value of your supply’ as a principle you must include...

- The full amount payable by your customers before you deduct any payments for your drivers
- Any fares that you receive if you also drive for your firm (as a sole proprietor, partner or director)
- Full fares payable by passengers even if you sub-contract the work to an independent business or owner-driver
- Any referral fees that you receive from other taxi firms.

However, if you’re acting as an agent for any of your drivers (for some or all the work they do), different rules may apply.

Working out VAT as a principal and an agent

If and when you are acting as an agent, your drivers are entitled to the full fares from the customers, even though the charges you make for your agency services may be deducted from the account fares that you collect for your drivers.

If you are acting as an agent, your supplies can include all agency services to your drivers including things such as vehicle, radio, app or smartphone rental AND the administration services that you supply for account customers.

This covers for example, your administration charge to account customers. And this is a common area where mistakes are made due to the lack of understanding of the rules set out in VAT Notice 700/25 covering taxis and private hire cars*.

You can (and should) read what is set out in section 3.5 and 3.6 of this Notice 700/25, but in short it states that when you are acting as an agent...

- The VAT is only due on the fares payable by the customers IF the driver is registered for VAT (highly unlikely)
- If the driver isn't VAT registered, then you **MUST NOT** charge VAT or issue a VAT notice on their behalf for customer fares
[\(for more see Notice 700 The VAT Guide\)](#)



Working out your VAT as an agent on account work

So, if for example, your driver does a £10 delivery for a local Chinese take-away (non VAT registered) and they are an account customer, your invoice should have two charges...

- £10 for the fare – charge no VAT
- £1 for your administration charge (for example) with VAT – £1.20

This means that instead of sending your customer an invoice for £11 plus VAT (£13.20) your total invoice will now be just £11.20 – saving your non-VAT registered customer £2 per delivery.

This could make you much more competitive with that type of business.

Working out VAT as an agent for cash work and a principal on account work

Depending on the terms of the contract (written or oral) with your drivers and the working practices of your business, you may be acting as an agent for drivers' cash work and a principal for on account work.

Once again there are specific things that you must be able to satisfy HMRC about, and these are set out in section 3.6 of VAT Notice 700/25*.

HMRC says that if you operate as an agent for cash work and a principal for on account work, you must still account for VAT at the standard rate on the full charge to the drivers for rental on things such as the vehicle, a radio, app and/or smartphones.

See section 3.7 of VAT Notice 700/25* for more on this as there are some very specific details on when this applies in the notice.

Confused?

Hopefully this article has alerted you to the very specific arrangements in place for taxi and private hire firms when it comes to VAT.

It can be hard to get your head around all the permutations, but that's why you have an accountant. So, at the very least we suggest that it is worth checking with your accountant to be sure that they are aware of these unique arrangements.

In any case, we strongly recommend that you seek professional advice from your accountant and recommend that you don't rely on this article to make any decisions on your VAT practices.

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The logo for iCabbi, featuring the word "iCabbi" in a white, italicized, sans-serif font. The letter "i" is lowercase and has a small yellow dot above it. The letters "C", "a", "b", and "b" are uppercase. The letter "i" at the end is lowercase.