



Finance Bill 2025-26

Clause 79 Private hire vehicles or taxis

BRIEFING FOR MPS ON THE **FINANCE BILL BY ICAEW TAX FACULTY**

WHO WE ARE

Please see Appendix 1.

EXECUTIVE SUMMARY

1. This briefing addresses the practical implications of the amendment to s53, VATA 1994, concerning the exclusion of taxis and private hire vehicles (PHVs) from the tour operators margin scheme (TOMS). Specifically, it highlights a technical concern regarding the drafting of new subsection (3A) (inserted by clause 79(1)), which impacts the VAT treatment of genuine commercial travel packages.
2. The limited list of services to which PHV or taxi services can be ancillary – and thus remain in the TOMS – creates an anomaly for genuine tour operators providing day trip packages or similar. We recommend amending the legislation to ensure legitimate operators are not forced to unbundle single commercial packages, which would result in significant compliance friction without benefiting the Exchequer.

THE MEASURE

3. The amendment to s53, VATA 1994 seeks to exclude taxis and PHVs from the TOMS, ensuring they are subject to standard VAT rules.
4. New subsection (3A) provides an exception to this exclusion. As currently drafted, a supply of PHV or taxi services may remain within the TOMS if it is “ancillary” to a limited list of services: provision of accommodation, or passenger transport (by bus, coach, train, ship or aircraft).
5. The policy intent of subsection (3A) appears to be an anti-avoidance measure designed to prevent businesses from bundling a taxi ride with a trivial item (eg, a cheap walking tour) solely to gain a VAT advantage via the TOMS.

OUR CONCERN AND OUR RECOMMENDATIONS

6. We are concerned that the list of qualifying services in subsection (3A) is too narrow. It excludes other key designated travel services, most notably trips, excursions, and the services of tour guides.
7. This creates a significant issue for genuine tour operators who supply day trip packages – for example, a package consisting of a private car transfer combined with a professional tour guide or an excursion ticket. Under the draft rules, the PHV element would fall out of the TOMS while the guide or excursion element remains within it.
8. This effectively forces the unbundling of a single commercial package, leading to two primary areas of compliance friction:
 - a) Valuation difficulties: operators will be required to value the PHV element separately to account for standard VAT. As the package is sold for a single global price, this necessitates a complex and subjective apportionment of the selling price, undermining the simplicity the TOMS is designed to offer.

- b) Split tax points: we foresee scenarios where a single transaction has two different tax points: the standard tax point rules for the PHV (payment/invoice date) versus the TOMS tax point rules for the remainder of the package (departure date). This creates substantial complexity for accounting systems and increases the risk of errors.
- 9. Relying on such a restrictive list to block avoidance penalises legitimate operators. If a PHV is genuinely ancillary to a high-value tour or excursion, excluding it from the TOMS goes beyond the policy intent of targeting “taxi-only” businesses.
- 10. We recommend that the legislation be adjusted to recognise genuine day-trip packages. We believe the existing “ancillary” and “in conjunction with” tests are robust enough to prevent artificial avoidance (eg, a taxi ride is unlikely to be effectively ancillary to a low-value walking tour).

SUGGESTED AMENDMENTS

- 11. We propose that the list of qualifying services in subsection (3A) be expanded.

Qualifying Services: Subsection (3A), Section 53 VATA 1994

- 12. The current list in paragraphs (a) and (b) restricts ancillary status to accommodation and passenger transport.
- 13. We suggest that this list be amended to include other designated travel services, including “services of tour guides” and “trips or excursions”. This would ensure that genuine day trip packages remain wholly within the TOMS, preserving the integrity of the commercial package.

FURTHER INFORMATION

As part of ICAEW's Royal Charter, we have a duty to inform policy in the public interest.

Contact details

Laura VillaMil

ICAEW Policy & Public Affairs Executive, Laura.VillaMil@icaew.com

APPENDIX 1

ICAEW TAX FACULTY – WHO WE ARE

Internationally recognised as a source of expertise, ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's *Ten Tenets for a Better Tax System* are summarised in Appendix 2.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 150 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

APPENDIX 2

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as **TAXGUIDE 4/99**.