Private hire operators: a key VAT precedent

Indirect Tax

27 October 2025

A Supreme Court victory for taxi firm Delta has confirmed a key VAT precedent – but uncertainty still looms.

Key Points

What is the issue?

The Supreme Court in *DELTA Merseyside Ltd v Uber Britannia Ltd* found that private hire operators outside London do not have to contract directly with passengers. This means they can still use agency or intermediary models and aren't automatically liable for VAT on all fares.

What does it mean to me?

Operators and advisers gain short-term relief from new VAT obligations but must ensure that contracts and operations genuinely reflect agency arrangements. VAT treatment now differs between London and the rest of the UK, so careful compliance and documentation are essential.

What can I take away?

The ruling brings clarity but not finality. HMRC policy and future cases could change the rules again. Keep contracts watertight, monitor VAT developments and prepare clients for possible reform.

A landmark ruling by the UK Supreme Court has provided long-awaited clarity on VAT obligations for private hire operators outside of London – and in doing so, may have prevented one of the most significant compliance upheavals in years.

However, while the court ultimately confirmed that a range of business models remain valid under the Local Government (Miscellaneous Provisions) Act 1976 Part II (the ‘1976 legislation’), this was far from a fringe decision. The ruling has direct consequences for VAT policy, contractual structuring and the practical tax advice that professionals need to give to clients who are agents or intermediaries for service providers.

In this article, we explain the case, what it means for tax advisers, and why even a favourable decision leaves the door wide open to further reform.

What was the case about?

DELTA Merseyside Ltd and another v Uber Britannia Ltd [2025] UKSC 31 centred around how private hire operators across England and Wales contract with passengers – and whether they are required to do so directly in all cases.

Uber argued that all operators should be legally compelled to follow the same model it uses; where it contracts directly with passengers, therefore triggering VAT liability on all fares. This model had already been mandated in London following previous court rulings, and Uber sought to replicate that outcome across the rest of the UK.

In 2023, Uber succeeded with this argument at the High Court. However, that was overturned a year later in the Court of Appeal following a successful challenge brought by two private hire operators, Delta and Veezu. The Supreme Court judgment, handed down in July 2025, upheld that reversal.

Before the Supreme Court's ruling, VAT obligations for private hire operators had already diverged between London and the rest of the UK, due to a previous case involving Transport for London. The Supreme Court's intervention was therefore crucial to establish whether a consistent approach would be imposed nationwide.

What did the court decide?

The court ruled that private hire taxi operators could continue to utilise business models which saw them operate as an intermediary or agent for the private hire drivers and that such models were consistent with the licensing regime. The judgment confirmed that:

- Operators are not required to contract directly with passengers.
- If a private hire vehicle is hired, the legislation imposes contractual responsibility without the need for there to be an actual contract between the operator and passenger.
- The 1976 legislation was deliberately broad enough to allow flexibility in business models.
- As such, operators are not compelled to adopt Uber's structure – and by extension, are not automatically liable to charge VAT on all fares.

The justices rejected Uber's interpretation that the licensing regime should be read as imposing a universal requirement to contract directly. Instead, they found that different models can be compatible with the law, provided the operator maintains responsibility for fulfilling the booking in line with its obligations.

This means the VAT liability will depend on the specifics of how each operator contracts, collects fares, and interacts with passengers and drivers. It also means that firms operating on the agency or intermediary models – where the driver contracts with the passenger, and the operator acts as agent/intermediary – may not have to charge VAT, especially if the driver remains under the VAT registration threshold.

That being said, advisers should note that this is far from a settled area of law, and the courts could change the interpretation of the licensing regime in future –

especially if policymakers revisit the 2024 VAT consultation, or HMRC shifts its guidance. Indeed, recent press reports suggest that the chancellor is considering imposing VAT on private hire taxi journeys outside of London.

What are the implications for tax advisers?

While this ruling avoids the most disruptive VAT consequences, it has surfaced several important challenges and considerations for tax advisers and their clients.

1. Contractual clarity is critical

The judgment reinforces the importance of precise, well-drafted contracts. If an operator wants to rely on the agency model, the language of the operator's contract with its drivers and passengers – and the reality of how bookings and payments are handled – need to reflect that.

There have been several cases involving private hire taxi firms looking at the status of drivers as workers, the most high profile of which involved Uber. In that case, again before the Supreme Court, the court was critical of the lack of contractual clarity between Uber and its drivers. The court looked not only at the contract but at the reality of the relationship between the operator and driver.

Advisers should review client contracts thoroughly and ensure that they reflect the intended VAT treatment – particularly as HMRC may now scrutinise contractual structures more closely following this case.

2. VAT treatment may still vary

Despite the court's decision, VAT treatment in the sector remains fragmented. For example:

- In London, following the case of *Uber v TfL* [2021] EWHC 3290 (Admin), private hire operators must contract directly and charge VAT on all fares.
- Outside of London, operators can continue to use agency and intermediary models – but only if their contracts and operations are structured accordingly. That model may result in not requiring VAT to be charged if the services are supplied by a driver who is under the VAT threshold.

- Advisers with multi-regional clients – or those who operate across licensing authorities – need to be acutely aware of these distinctions. Failing to adapt VAT systems and processes to suit could create compliance risk or missed obligations.

3. TOMS adds complexity

The judgment also leaves unresolved questions around the Tour Operators Margin Scheme (TOMS) – which some large operators, including Bolt, have used to reduce their VAT exposure.

The court made no direct comment on TOMS, which is being separately litigated between HMRC and Bolt. The existence of multiple VAT models – direct contracting, agency and margin-based – means the system is increasingly difficult for advisers to navigate.

Tax professionals should be alert to the potential for clients to rely on schemes like TOMS and be confident they meet the eligibility criteria. It is, however, important to follow the litigation carefully as the landscape remains uncertain.

It is a complex scheme, originally designed for tour operators providing services such as travel and accommodation. Applying it to taxi fares remains contentious with HMRC. Advisers will need to assess whether a margin scheme is appropriate, and whether adopting it would restrict the client’s ability to reclaim input VAT.

4. Employment status risk is increasing

The VAT implications of this case cannot be separated from broader trends in worker status classification, particularly if operators are forced to restructure in a way that brings them closer to controlling drivers.

For example, if an operator shifts away from the agency model and begins directing or managing driver activity more closely, this could inadvertently tip the balance toward ‘worker’ or even ‘employee’ status – bringing PAYE, NICs and pension liabilities into scope. As a result, advisers may need to assess whether employment law liabilities are being created by the business model and practices which the operator has adopted.

5. A warning shot for the platform economy

This ruling may have focused on taxis, but the principles at play – especially around control and contractual relationships – will likely be of interest to HMRC and advisers in other sectors.

Any business model reliant on freelancers, agents or third-party service providers may face similar questions in future, particularly if platforms act as intermediaries between customers and workers. Advisers should be proactive in reviewing clients' structures and anticipating future changes in case law or HMRC guidance.

6. Case law is doing the heavy lifting

The Supreme Court ruling is a stark reminder that tax law is increasingly shaped by litigation, rather than legislation.

The Treasury's 2024 consultation on VAT in the taxi and private hire sector hinted at possible reform, but there's been little development since. In the meantime, decisions like this one continue to define the boundaries.

Tax advisers should keep an active watch on future decisions, and where possible, contribute to industry consultations to ensure that real-world complexity is recognised by policymakers.

Next steps for advisers and clients

The good news is that advisers and their clients now have greater certainty. But this is not the time to be complacent. Those advising operators, platforms or digital service providers should take the following immediate steps:

- Review operations and contracts with both service providers and users to confirm the VAT treatment is reflected clearly and accurately.
- Check compliance with regional licensing rules, especially where business models differ between locations.
- Model potential scenarios for VAT registration, employment classification and system upgrades, in case future reform forces a change.
- Monitor developments in HMRC policy, TOMS use and further litigation in adjacent sectors.
- Identify whether restructuring or VAT registration could become mandatory under future case law, and proactively model scenarios around cashflow and

administrative costs.

The road ahead

This judgment brings welcome relief for operators and their advisers – but it also raises fresh questions. The challenge now is not just to understand the decision, but to prepare for what might come next.

For some, this may be the prompt they need to bring documentation, pricing and compliance into line. For others, particularly in the digital economy, this case may mark the start of more scrutiny from HMRC.

Either way, advisers who act early – and who understand the shifting boundaries between control, agency and liability – will be best placed to support their clients in the years ahead.

Beyond compliance, advisers should also consider their own reputational risk. Missteps in VAT treatment can lead not only to penalties, but to disputes with drivers, clients or local authorities. In a space increasingly defined by litigation, advisers must be both gatekeepers of compliance and strategic partners in navigating uncertainty.