

FAQ's for self-employed platform drivers

Recent changes to how VAT is accounted for in the private hire sector seems to have led to drivers being encouraged to register for VAT voluntarily. You may even have heard that you can make more money by registering for VAT. But VAT is a complex tax, and registration is not a decision to be taken lightly. In some cases, it can create ongoing administrative problems or leave you worse off. These FAQs explain the recent changes, how voluntary VAT registration works, and what to do if things go wrong with your VAT.

Key things to know

- VAT registration is only mandatory if your income exceeds the VAT registration threshold (currently £90,000).
- For most drivers, you are unlikely to exceed the VAT registration threshold, so you **do not** need to register for VAT, even though your engager may encourage you to do so.
- If you have not exceeded the VAT registration threshold, voluntary VAT registration is optional – some drivers may benefit from voluntary VAT registration, but others may not.
- If you register, VAT will apply to all other driving work and possibly other business activities if you have them, it is not just for the platform work that prompted the registration.
- The VAT you collect is not “extra income” – some of it will need to be paid over to HMRC (see below).
- VAT registration creates ongoing legal and administrative obligations, and therefore potential compliance costs.
- The Flat Rate VAT scheme can significantly simplify administration but whether it is financially beneficial will depend on your expenses and circumstances.
- Get advice from a professional adviser before agreeing to register for VAT.

What is VAT?

Value Added Tax (VAT) is a tax charged on many goods and services supplied by VAT-registered businesses.

A VAT-registered business normally:

- charges VAT on its sales (output VAT);
- reclaims VAT on certain business expenses (input VAT); and
- pays the difference to HMRC.

This system means that VAT is charged only on the ‘value added’ at each stage of the supply chain. In a supply chain where the businesses are all registered for VAT and can claim all of the VAT on their expenses, VAT is designed to be borne by the final consumer rather than by businesses.

The standard VAT rate is currently 20%.

What are the VAT changes?

Historically, some ride-hailing platforms used special VAT arrangements that meant that VAT was only calculated on the platform service fee and resulted in a relatively low amount being charged as part of the fare. We understand this VAT was not usually itemised separately by the platform and was therefore less visible.

Following legal challenges and HMRC scrutiny, those arrangements are no longer available in the same way and VAT now generally applies to passenger fares at 20%.

We understand some platforms have made changes in response to this. However, the licensing rules mean that different approaches apply depending on whether the operations are inside or outside of London.

How has this affected drivers outside of London?

We understand some platforms have restructured parts of their operations outside London so that for VAT purposes, drivers, rather than the platform itself, are treated as making the supply of services to the passenger.

Where drivers do not meet the VAT registration threshold, they are not required to charge VAT. This helps keep fares lower for passengers outside London.

What about drivers operating inside London?

Different licensing rules apply in London, which means platforms cannot use the same structures there. This means many ride-hailing platforms now have to apply 20% VAT to passenger fares, although the way this is reflected in pricing may vary.

In some cases, platforms may absorb some or all of this cost within the overall fare quoted to the passenger rather than passing it on in full and risk losing the ride. For example, rather than increasing a £10 fare to £12 after VAT, a platform may choose to keep the passenger price at £10 and account for the VAT within that amount (so a £8.33 net fare and £1.67 VAT). This may affect the amount of money ultimately received by the driver.

In addition, where drivers are not VAT registered, they cannot reclaim the input VAT they incur on their business costs such as vehicle leasing, fuel, repairs, tyres and other expenses. This 'blocked' input VAT means that VAT may be collected by HMRC both on passenger fares and on the driver's business inputs, with the latter cost ultimately borne by the driver.

This is why private hire supply chains in London may be considered uniquely impacted by the recent VAT changes.

Do I need to register for VAT?

You must register for VAT if your taxable turnover (income before expenses) goes over £90,000 in the last 12 months or you expect it to go over £90,000 in the next 30 days. Most drivers will not meet this threshold. You can, however, choose to register for VAT voluntarily if your taxable turnover is less than £90,000. 'Taxable' turnover means business income that is not VAT exempt or outside of the VAT system. Driving services are taxable turnover.

Should I register for VAT voluntarily?

Whether voluntary registration is beneficial depends on your circumstances. It might help you if you want to reclaim VAT on certain business costs, such as the ones set out above - but also things like platform fees, mobile phones and accountant fees.

However, VAT registration also creates ongoing obligations and costs.

Once registered, you will need to:

- charge VAT on all your taxable sales (see below);
- keep VAT receipts and records to support any claims for input VAT on business expenses (although see the Flat Rate Scheme section below);
- submit VAT returns and pay any VAT due to HMRC, usually every quarter;
- keep digital records;
- comply with other Making Tax Digital for VAT rules; and
- potentially pay for professional advice and assistance.

Once registered, how do I charge VAT on my sales?

- Inside London, where drivers are generally treated as supplying services to the platform, VAT will normally be calculated by reference to the amount of the fare earned by the driver for those services (that is, after platform fees but before any other deductions). The VAT is charged to the platform, but the platform can usually reclaim it as input VAT.

- Outside London, where drivers are generally treated as supplying services directly to passengers, VAT will normally be calculated by reference to the full passenger fare. Passengers cannot usually reclaim VAT unless they are VAT-registered businesses. Some business passengers may therefore request a VAT receipt so that they can reclaim the VAT as input tax.

In practice, in both cases, we understand that VAT is usually applied by ride-sharing platforms to driver invoices on their behalf, using its software/self-billing systems. This VAT is the VAT that you account for and declare to HMRC.

Will I earn more if I voluntarily register for VAT?

Potentially, though it will depend on your individual circumstances.

To be clear – the VAT that you charge is not your income. You collect it on behalf of HMRC and pay it over to them, less any VAT you can reclaim on business expenses.

Some drivers may find that reclaiming VAT on expenses improves their financial position. For others, the administrative burden and costs – for example, of professional assistance in managing VAT – may outweigh any benefits.

You should be cautious about anyone claiming that voluntary VAT registration is always financially beneficial.

Can you give me an example of VAT registered vs non-VAT registered in London?

Yes – let's say this is the scenario for a driver in London, across a week:

- Passengers pay £750 overall (so a £625 fare + £125 VAT which the platform will account for to HMRC).
- Platform margin = £150
- Driver expenses = £210 (VAT-inclusive, meaning £175 + £35 VAT).
- Tips: £50 (outside the VAT system, although they are subject to income tax)

	Non-VAT Registered	VAT Registered (VAT added on top)
Driver receives from platform	£600	£720 (£600 + £120 VAT)
Expenses	(£210)	(£210)
VAT paid to HMRC	0	(£85) (£120 - £35)
Driver net income	£390 plus tips	£425 plus tips

Important:

Whether VAT registration is beneficial can also depend on the contractual arrangements with the platform and how its pricing is determined. In the example above, we have simply grossed up the same £600 amount for VAT. In reality, however, even if VAT is shown clearly on self-billing invoices as a separate line, we understand that underlying fares and driver earnings are continually adjusted based on a range of factors. This can make it difficult to compare the true economic impact of VAT registration with complete transparency. The example should therefore be treated as an illustration of how VAT works rather than a prediction of the financial outcome for any particular driver.

What is the Flat Rate Scheme?

The VAT Flat Rate Scheme (FRS) is a simplified scheme for some smaller VAT-registered businesses.

Under the VAT Flat Rate Scheme, you pay HMRC a fixed percentage of your VAT-inclusive turnover, rather than accounting for output VAT and input VAT separately. For example, if your flat rate percentage is 10%, you pay 10% of your VAT-inclusive sales to HMRC.

Under the scheme, you generally cannot reclaim separate input VAT on business expenses (except in limited circumstances, such as certain large asset purchases such as your vehicle). The difference between the VAT you charge customers and the amount you pay to HMRC is intended to compensate for input VAT you may have incurred - although it may not match your actual input VAT exactly.

The scheme can simplify record-keeping because you do not need to calculate and claim input VAT on most business expenses, but it is not always financially beneficial. Some drivers may pay more VAT under the Flat Rate Scheme than under normal VAT accounting.

You should check carefully before joining – whether it works better for you financially, will largely depend on your level of expenses.

Can you give me a basic example of normal VAT vs Flat Rate Scheme?

Carrying on the example above where the driver receives £720 in income (£600 plus VAT of £120) and spends £210 on business expenses, including £35 VAT:

	Normal VAT accounting	Flat rate scheme
Driver receives from platform	£720	£720 (£600 + £120 VAT)
Expenses	(£210)	(£210)
VAT paid to HMRC	£85 (£120 - £35)	(£72) (10% of £720)
Driver net income	£425 plus tips	£438 plus tips

Under the Flat Rate Scheme, the flat rate percentage for “Transport or storage, including couriers, freight, removals and taxis” is 10% (although it may be reduced by 1% in the first year of VAT registration). You therefore pay £72 to HMRC (£720 × 10%). In this example, the Flat Rate Scheme leaves you £13 better off than normal VAT accounting. This is because the scheme effectively compensates you by £48 for VAT on expenses, even though the VAT actually incurred on your expenses was only £35. However, this will not always be the case.

Do I get any relief for my expenses if I am not VAT registered?

Yes, even if you are not VAT registered, you can get tax relief for your allowable business expenses for income tax purposes. This means you can generally deduct the VAT-inclusive cost of allowable business expenses when calculating your taxable profit. .

Carrying on our example above, if the driver was not VAT registered, they can't claim the VAT back (£35) but would be able to claim £210 as an expense to reduce their profit for income tax and National Insurance purposes. This gives some relief but not the same amount as under the VAT system.

Where the driver is VAT registered and reclaiming the input VAT under normal VAT accounting rules, they would generally:

- reclaim the £35 input VAT separately through their VAT return, and
- deduct only the net £175 fuel cost for income tax/National Insurance purposes.

It is slightly more complicated if you are VAT registered and in the Flat Rate Scheme.

Should I use an accountant or adviser?

If you are thinking about registering for VAT, many drivers will find paying for professional advice and assistance helpful to:

- decide whether VAT registration makes sense for them;
- understand their obligations;
- meet deadlines;
- avoid VAT assessments, interest and penalties;
- correct any errors or mistakes.

Be wary of advisers making unrealistic promises or encouraging arrangements you do not understand (see below). Even if you use an adviser to help manage your VAT affairs, you remain legally responsible for your VAT registration and returns.

If you want to use an accountant or adviser, look for one that belongs to a professional body, such as the [Chartered Institute of Taxation](#). This can help give you confidence that they meet high professional standards.

Why might someone try to encourage me to register for VAT?

However, agents may also benefit financially from providing ongoing VAT services. Because of this, some drivers may feel pressured into VAT registration without fully understanding the implications.

Be aware that some unscrupulous agents may even try to register you for VAT without telling you. Do not give an agent any details or sign anything, that might allow them to register you for VAT without your full knowledge and informed consent.

If you want to go ahead, make sure you understand the following before agreeing to VAT registration:

- whether registration is necessary or likely to be beneficial;
- who is completing the registration;
- how the VAT registration details from HMRC will be provided to you; and
- how returns will later be submitted and managed.

What warning signs should I watch out for?

Be cautious if:

- someone says VAT registration is “free money” or “risk free”;
- you are asked to sign documents you do not understand;
- an agent asks for your personal Government Gateway login details rather than using proper agent processes;
- you are told that someone else will “deal with HMRC” and you do not need to review or understand the VAT returns being submitted in your name;
- you don’t receive any HMRC letters because another address is being used;
- you are told “everyone is doing it”; or
- nobody clearly explains how VAT returns will be submitted and paid.

How can I check if I am VAT registered?

If you think you may be VAT registered but are not sure, you should first try to locate your VAT registration approval letter from HMRC. This should contain your VAT registration number and date of registration.

If you have a VAT registration number, you can verify it using the [GOV.UK VAT number checker](#).

You should also check the address attached to the registration, as this is where HMRC correspondence will usually be sent.

You may be able to check your VAT details through your HMRC online account. If a platform or adviser arranged the registration and/or set up the online services account, ask them for any relevant information so that you can access the account.

If you cannot obtain your VAT registration details, contact HMRC as soon as possible.

What if I think I was registered without understanding it?

If you think you were registered for VAT without your full knowledge or informed consent, seek help as soon as possible.

In some cases, HMRC may agree to cancel a registration if:

- nothing further has happened since the registration; and
- the circumstances are explained promptly.

In other cases, you may still need to:

- obtain HMRC online account access;
- submit outstanding VAT returns and pay any VAT due; and
- formally deregister later.

What if I stop driving?

Your VAT obligations do not automatically end if you stop platform work – you will need for formally deregister from VAT.

Until deregistration takes effect, HMRC will continue expecting VAT returns. Nil returns can be submitted for periods where no trading took place.

What if I have a VAT problem but cannot afford professional help?

If you cannot afford paid professional help, support may still be available.

You could try:

- [HMRC's VAT helpline](#);
- [HMRC's Extra Support Team](#), if you are in vulnerable circumstances or have additional support needs; and
- [Business Debtline](#), if you build up large debts or penalties.

Unfortunately, the tax charity TaxAid does not support VAT queries.

What is the bottom line?

Some drivers may not need to register for VAT at all. Others may choose to register voluntarily.

Voluntary VAT registration may be beneficial for some drivers, depending on their expenses and circumstances. For others, however, registration could increase costs or administrative burden without offering much benefit.

Before registering, you should consider:

- whether registration is actually necessary;
- the structure of your platform arrangements;
- how much you spend on business expenses – for example whether you use your own car or lease one could be a big factor;
- whether you can manage ongoing paperwork and deadlines; and
- whether you can afford a professional adviser.

Remember: mistakes can be difficult to put right later.

More information about the VAT system is available on [our website](#). HMRC have [guidance](#) on registering for VAT and also have [YouTube videos](#).

(Note that this guidance assumes drivers are self-employed for tax purposes. Although there are ongoing discussions about employment rights, these do not currently change drivers' tax or VAT position).

This guidance has benefited from discussions with the IWGB trade union, who shared practical insights into the issues facing platform drivers and the questions they most commonly ask.

<https://iwgb.org.uk/en/>

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