**Accounting for VAT in a Taxi Business - How it Works!**

This article considers the proper treatment of VAT in a taxi basis and will help you account for it properly and avoid those penalties and interest when the VAT man visits.

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**Accounting for VAT in a taxi business can be complicated & confusing**

**Here we consider:-**h

Cash Work?

Account Work?

Drivers?

VAT consequences?

What the VATman will ask?

Key indicators

The Account Trap

The Double Whammy

**If you need any help or drivers need their self-assessment tax returns filing then please contact us:-**

**Different ways of working**

The majority of taxi businesses have two different types of work:

* **Cash work** where the customer pays the driver at the end of the journey.
* **Account work** where local taxi firms are paid periodically (usually monthly).

In the majority of cases drivers are not employees but are self-employed and are required to complete the usual self-assessment tax return every year. The taxi business will usually provide the back office support, insurance, hire the radio (sometimes the car) to the driver.

**What are the VAT consequences of the above regime?**

If a taxi firm takes the route that all fares belong to the driver, then the firm will need to be declare VAT on the radio hire, car hire and any admin fee. Insurance will normally be on a block policy and therefore exempt from VAT. The taxi fares will be treated as drivers’ income and VAT will only need to be declared by the driver, if the driver is VAT registered (very unlikely).

**Account work.** Where the taxi firmtreats cash work as driver income but account work as taxi firm income VAT will need to be declared, by the firm, on this income.

**Employed drivers.** Where the drivers are “employees” of the firm then VAT will need to be declared on all fare income.

**What questions will the VATman ask?**

* Are there any clear contractual differences between cash & account work?
* Are the drivers employees of the taxi firm?
* Do the drivers supply their services to the customer or to the taxi firm?

**Key indicators**

A clear contractual difference between cash and account work could be the basis of payment to the driver. For example if the driver is paid a fixed hourly rate for account work, but payment for cash work is directly related to takings e.g. an agreed percentage split.

However usual practice is for drivers to keep all cash takings but get paid a percentage or mileage rate for account work. This is not a clear contractual difference, it merely reflects the increased administration work and consequently cost required by the firm to process account work.

**The account trap**. Many taxi firms will collect accounts income, deduct charges for car rental, insurance, radio hire and admin fees and then pay the balance to the driver. This deduction is commonly known as “settles”. Many firms then make the mistake of only declaring VAT on the amount they retain but **VAT is due on the full amount**.

**The double whammy**. In effect the taxi firm has to account for VAT twice. Once when it receives the income from the account customer and again when it charges the driver for settles. The VATman will always look out for this and issue an assessment for the under-declared VAT, plus penalties and interest.