

## ITS UK Consultation Response: VAT Treatment of Private Hire Vehicles July 2024

### 1. Introduction & About Intelligent Transport Systems UK

1.1 Intelligent Transport Systems UK (ITS UK) is the national membership association for transport technology. We provide a national platform to support the roll out of technology for a cleaner, safer and more effective transport network, both at home and abroad.

1.2 ITS UK has 175+ members, from both the private and public sector, and covering all sizes and disciplines, with members working in areas like Demand Responsive Transport, as well as Road User Charging, Mobility as a Service (MaaS), traffic management and enforcement, integrated transport, connected and autonomous vehicles, public transport services, smart ticketing and much more. More information on ITS UK and the intelligent transport sector can be found at [www.its-uk.org](http://www.its-uk.org)

1.3 We believe that intelligent transport has a vital role to play in supporting the UK Government's ambitions:

- **Economic growth:** The sector is conservatively valued at £1.5bn and generates £15bn a year for the UK economy. It is an important export, with UK businesses integral in the roll out of intelligent transport overseas, and there is potential for the UK to develop a competitive advantage in the sector in the future, with the global market expected to be worth £900bn by 2025. The industry also supports highly skilled jobs and training opportunities.
- **Decarbonisation:** The intelligent transport sector is vital in incentivising the travelling public to low carbon forms of transport and decarbonising the road, rail and wider transport network.
- **Supporting Zero Harm:** Intelligent transport systems can help reduce road deaths, such as by helping local and national transport authorities, through data, to identify potentially hazardous junctions. Similarly, the implementation of new operational and enforcement technology can help ensure we continue to make our transport network safer for all who use them.
- **Optimising capacity & cost efficiency:** Intelligent transport has a key role in optimising the usage of our transport network, by making best use of current infrastructure assets, incentivising behaviour change and through the predictive maintenance of infrastructure, to name a few. Ultimately, this ensures the best possible usage of our limited road and rail network and can provide cost effective increases in capacity

1.4 In this response, ITS UK is responding on behalf of its members, with regards to how the issue of VAT on Private Hire Vehicles (PHV) pertains to Demand Responsive Transport (DRT). We have not sought to comment on the wider proposals within the consultation.



## 2. Demand Responsive Transport (DRT)

2.1 DRT constitutes an innovative approach to public transport, tailor-made to meet the unique needs of UK communities. Diverging from conventional fixed-route systems, DRT utilises technology to establish dynamic, on-demand networks, enabling passengers to book rides on-the-go or schedule trips in advance, thereby offering a highly adaptable and efficient public transport solution, especially in areas with limited transport alternatives. In some areas, these services can be a more sustainable alternative to underutilised fixed-route buses and help reduce traffic through modal shift.

2.2 The Government has funded a number of DRT schemes across the country, through the Rural Mobility Fund, although the number of schemes in the UK lags behind European counterparts. Supporting this innovative form of public transport will be increasingly important as the UK seeks to decarbonise the transport network in hard-to-reach communities.

2.3 There are significant benefits from DRT schemes for the UK, most notably:

- Reducing congestion through modal shift
- Decarbonisation, particularly of rural transport networks
- Encouraging seamless, door-to-door travel, particularly when DRT schemes are integrated with the wider transport system or Mobility as a Service (MaaS) schemes;
- Increasing bus patronage by feeding in to the wider bus network;
- Supporting investment, jobs and economic growth.

2.4 Further benefits can be found in CoMoUK's 2023 Report on DRT<sup>1</sup> and in the Government's DRT: Local Authority Toolkit.<sup>2</sup>

## 3. Changing VAT regulations for DRT

3.1 One of the key issues barring the growth of DRT in the UK, is the current VAT policy on PHV, which encourages operators to use disproportionately large vehicles - typically minibuses with up to 18 seats. These vehicles, typically mini buses with up to 18 seats, are not adapted to the usual number of passengers expected to take advantage of DRT schemes - comparable services in places such as Germany typically use minivans with six to eight seats.

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<sup>1</sup> <https://www.como.org.uk/ddrt/overview-and-benefits>

<sup>2</sup> <https://www.gov.uk/government/publications/demand-responsive-transport-local-authority-toolkit/demand-responsive-transport-local-authority-toolkit>

3.2 As the Consultation document highlights on page 27, under targeted interventions, for consumers, in the UK, only Public Service Vehicles (PSV), defined by law as having 10 seats or more, benefit from the zero-rated VAT exemption. Therefore, any DRT scheme that uses smaller vehicles automatically falls within the PHV rules and therefore is subject to VAT on fares.

3.3 We do not believe that this current situation is beneficial. Given that DRT is currently used to supplement local fixed-line public transport networks as well as providing first-mile or last-mile service for others, applying VAT to fares for parts of a public transport service adds unnecessary complexity for passengers and operators alike. It sets apart DRT services from other bus services which are not VAT applicable.

3.4 The current VAT regulations mean local authorities usually opt for larger vehicles. This has knock-on consequences by raising capital, operation, and maintenance costs, as well as resulting in a higher environmental footprint. The inability for DRT operators to purchase smaller vehicles VAT free exacerbates the continued shortage of bus and heavy vehicle drivers, who require separate licensing, meaning operators have a smaller pool of labour from which to recruit from. The use of smaller vehicles, which only require a standard driving license, would allow operators to draw from a much larger pool of drivers.

3.5 On behalf of the DRT sector, ITS UK would urge Government to consider an amendment to the Value Added Tax Act, as part of its review of PHV VAT. Where local authorities wish to use PHV for public transport services, fares should be VAT exempt - consistent with fares on other modes of public transport. This would facilitate the rollout of further DRT schemes, and make more efficient use of public resources.

3.6 Critically, we believe this change would have little impact on tax intake, given local authorities are currently not using smaller vehicles due to higher costs.

#### **4 Conclusion**

4.1 We look forward to engaging in further discussions to support DRT. We would be happy to discuss the position set out in this response further and to bring together DRT providers to meet with Government officials, should further explanation be required.

4.2 For further information, please contact ITS UK Public Affairs & PR Executive Eduardo Pitts at [Eduardo.pitts@its-uk.org](mailto:Eduardo.pitts@its-uk.org).