

## The complaint

Mr B complains that Lex Autolease Ltd (“Lex”) charged him following a change in road fund license when he believed his road fund license was included in the costs of the hire agreement.

## What happened

Mr B entered into a hire agreement in July 2023 for a term of 36 months. He says that one year later, he received an invoice from Lex for £15, with a further £3 charge for VAT. He says he was told this was for an adjustment in his road fund license. Mr B told us:

- the conditions of his hire agreement explain that the cost of road tax for the duration of the lease is included in the agreement, and this is what the broker told him when he acquired the vehicle;
- he contacted Lex immediately, but was advised that the license fee had increased by £15 since the hire agreement commenced and he was liable for this sum;
- he asked why VAT was being charged; this was a tax on a tax – but Lex told him that VAT was being charged for its service;
- Lex is charging customer whatever it wants to, and he’s no choice but to pay it otherwise he’ll default on his credit agreement.

Lex rejected this complaint. It said *“customers pay the road fund license cost for the vehicle, and this is incorporated into the monthly rental charge. This is calculated at the onset of the agreement taking into account the government legislation and taxable amount applicable at that time”*. But it explained that the agreement states that, *“if there is a change in the cost of the vehicle excise duty or any other relevant or alternative tax on the Vehicle or its use, we will charge you the increase or refund you the decrease for the relevant year. Further charges/refunds may apply in later years”*.

Lex says the Government increased the road fund license, and it recharged it to Mr B as permitted under the terms of his agreement. And it says that by initially paying the road fund licence increase on behalf of Mr B, it’s permitted to apply VAT for this service.

Our investigator looked at this complaint and said she didn’t think it should be upheld. By way of background, she explained that road fund license is a tax required to be paid in order to legally drive a vehicle on public roads in the United Kingdom. The tax rates are set out by the government and can be changed at any time. And she highlighted a recent change in road tax took that took effect from 1 April 2024. She said that Lex had no control over any changes in the cost of the road fund license, but that under the terms and conditions of the hire agreement signed by Mr B, it could recover any increase from its customers.

Mr B disagrees so the complaint comes to me to decide. He says this is *“a shocking loophole”* because Lex is incorrectly applying VAT to a tax, rather than a service, and by doing this, it’s charging tax on a tax which it will then reclaim. He also says he was led to believe that his road tax was included in the costs of his rental agreement.

## What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having considered all the evidence and testimony from both Mr B and Lex afresh, I've reached the same conclusion as our investigator and for broadly the same reasons. I'll explain why.

Mr B was supplied with a vehicle under a hire agreement. This is a regulated consumer credit agreement which means we're able to look into complaints about it.

Mr B's complaint is really in two parts, so I'll deal with each aspect separately.

*Is it fair for Lex to pass on the increase in road fund license?*

The hire agreement says "...if there is a change in the cost of the vehicle excise duty or any other relevant or alternative tax on the Vehicle or its use, we will charge you the increase or refund you the decrease for the relevant year. Further charges/refunds may apply in later years...". It goes on to state that "at your own expense and at all times you must obtain and pay for any duties, fees, licences and charges payable regarding the Vehicle at any time during the hire..."

The agreement also says "We will pay the cost of the annual vehicle excise duty required by law for the Vehicle. The estimated cost of this duty for each year of the Minimum Period is included in your Rentals. If: (i) the duty for the Vehicle increases above what it is at the hiring start date, or (ii) the actual duty for the Vehicle is greater than the amount of duty estimated by us at the time the Vehicle was ordered by you from us, or (iii) any other tax is imposed that results in the duty being more than is due at the hiring start date, you must reimburse us the difference on demand. But, if the cost of the duty or tax decreases, we will pay you the amount of the decrease for the relevant year. Further charges/refunds may apply in later years".

So it seems to me that the cost of the road fund license is included in Mr B's rentals, *but*, that the hire agreement permits Lex to charge or refund Mr B if there are changes in the road fund license applicable to his vehicle. And although I have some sympathy with Mr B – it's not nice to receive an unexpected invoice for something you thought was already included in your monthly payments – he did sign the hire agreement in June 2023, and in doing so he agreed to be bound by the terms of it.

Taking everything into account, I'm satisfied that, based on the terms and conditions I've already highlighted, it was fair for Lex to pass on this charge to Mr B.

*VAT – is Lex correctly applying VAT in this instance?*

I have to tell Mr B that this isn't a question that I can answer. VAT is administered and collected by His Majesty's Revenue and Customs ("HMRC"). This Service does not regulate HMRC and would not get involved in claims or queries about a business' application or interpretation of the VAT rules.

If Mr B has ongoing concerns about Lex's interpretation or application of VAT, I'd suggest he contacts HMRC directly and raises the matter with them.

**My final decision**

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 9 May 2025.

Andrew Macnamara  
**Ombudsman**