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Regulating on-demand services for increased municipal revenue: uber vs. licensed taxis

While on-demand ride-hailing services may bring benefits to the city as a whole by improving mobility, it can also result in an important loss of revenue for local governments. For instance, as Uber grows, it represents a huge competition to taxi drivers who have lost shares of the market and the taxi industry has been petitioning authorities to ban or suspend ride-hailing, citing passenger safety and insurance concerns. As a consequence, it has caused a decrease in collection of traditional taxi-related revenues. In New York for example, the price of yellow-cab medallions has been undervalued due to competition and has fallen by 30% from an average of $1million USD in July 2014 to $690.000 USD one year later, which represents an aggregated cost of $4 billion USD for the municipality[1]. An option for local governments to compensate this loss is to regulate ride-hailing services.

Regulating Uber-like services has been very controversial as it fits in a legal grey area and this disruptive service brings challenges to local governments around the world that have adopted different approaches, some banning the service, others imposing certain conditions, and others even partnering with the company. However, to address the shifts in conventional revenues on transit, cities must adjust local tax policies. If Uber-like services stress the infrastructure paid by public bodies by increasing the usage of

[1] Source : http://www.economist.com/blogs/graphicdetail/2015/08/taxis-v-uber

roads by independent contractors, and in order to ensure a fair competition to traditional taxi services and car-sharing initiatives who are strongly taxed, local governments should collect local sales' taxes on the web platforms of the service (not the driver nor the user, but the company) or apply a license tax (like taxis pay). Not collecting taxes on the ride-hailing services represent loss of millions of dollars for local governments. For instance, Uber projected to reach 20 billion dollars' ride payments in 2015, which represents $2billion USD revenue for the firm (it takes 20% of each ride), which means that the potential taxes here if applied by public authorities would be huge[2]. It is important to note that the tax should be collected by local governments who could reinvest the money in better roads, better public transport services, and not central government (such is the TVA).

A few local governments have already started to regulate and tax ride-hailing services. Mexico City for example, in July 2015 became the first Latin American city to set down regulations: the new law states that a tax of 1,5% of each journey must be paid to the city to help improve transport infrastructure; drivers must be registered and submitted to annual inspections; and there is a ban on cash payments and soliciting passengers from taxi stands. In Australia, a similar regulation has been imposed to ridesharing services completed by a reduction of costs for drivers and owners of taxis, halving the license lease fees in 2016[3]. Regulation could also be set at national level, and shared-mobility services could be included in existing regulation of e-commerce services.

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[2] More information on Uber tax scheme: http://fortune.com/2015/10/22/uber-tax-shell/

[3] Source : http://cities-today.com/how-cities-are-accommodating-ridesharing-services/