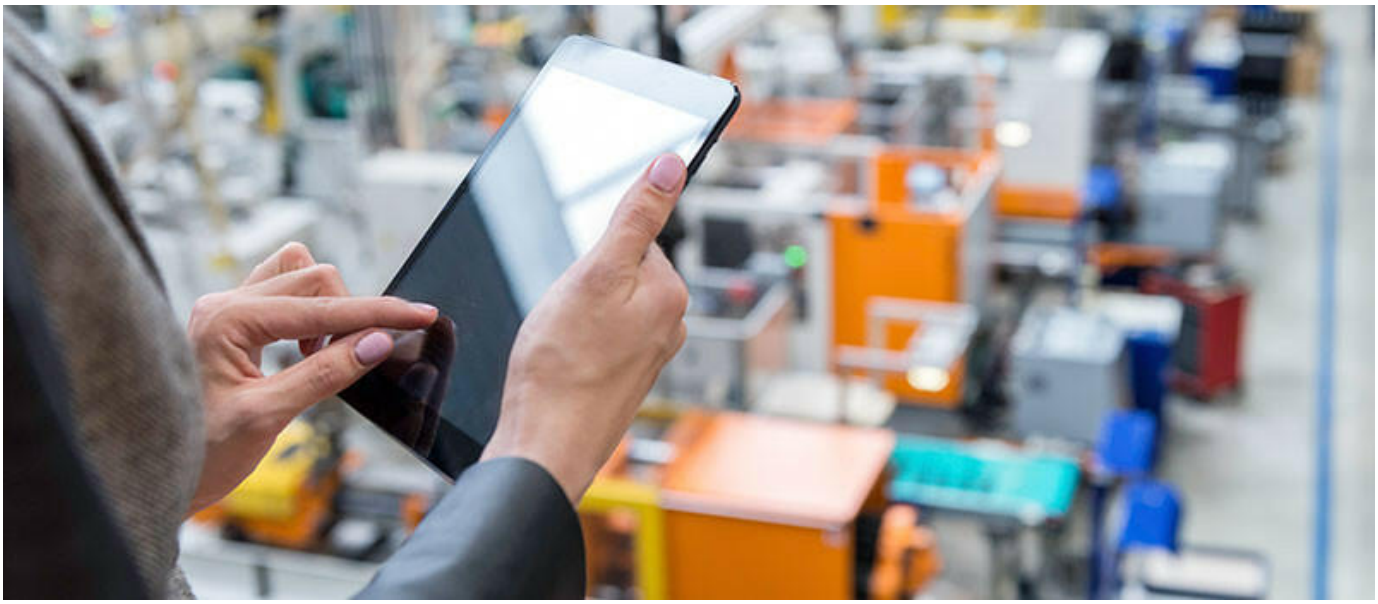
Finance Bill: regulations for drink deposit return schemes

Indirect Tax



22 June 2023

As part of the government’s commitment to increase recycling, the four countries of the UK will each launch statutory deposit return schemes for single use drinks containers. During the period of development of a deposit return scheme for Scotland, there have been ongoing negotiations between the Scottish and UK governments to determine the VAT accounting treatment on the deposit amounts.

The deposit return schemes are anticipated to launch throughout the four UK countries on 1 October 2025, at the earliest. The Scottish scheme had been due to launch on 1 August 2023, which was deferred to 1 March 2024. In an announcement on 7 June 2023 (see tinyurl.com/2bmev848), the launch date was delayed for a second time to October 2025, as the UK government did not grant an exclusion from the Internal Market Act for the Scottish scheme, so further changes to the Scottish scheme are required.

It was the UK government's preference that VAT should be accounted for on the deposits at the point of sale and throughout the supply chain (similar to schemes in the EU). The Scottish government's preference was for all for deposits to remain VAT free. However, the Finance Bill (at clause 314) found a middle ground: there will be no requirement for businesses in the supply chain to account for VAT on the deposits, but VAT must be accounted for on unreturned deposit amounts. In addition, this VAT must be declared by the first seller in the supply chain, normally the UK manufacturer or an importer.

On 29 March, draft VAT regulations that will implement these proposals were published and a consultation launched (see tinyurl.com/yhu7j6n2).

In our submission, we were broadly supportive and said that the draft VAT regulations will achieve their intended purpose.

We noted that the error correction procedure in the draft regulations is simplified compared to the normal rules for VAT voluntary disclosures, with a £50,000 error flat threshold rather than requiring any additional turnover test, which is welcomed. However, the regulations allow for some details of the scheme to be set out by HMRC in its guidance, including:

- the calculation method of the scheme adjustment where there is uncertainty if the returned products were subject to VAT or not;
- the disclosure procedure for final scheme adjustments (cessation of business) or special scheme adjustments (no sales of products for reasons other than cessation of business); and
- the specified timescale for disclosures.

The CIOT would prefer as much detail about VAT procedures to be detailed in the regulations themselves rather than guidance, to provide certainty for affected businesses. We would hope that the draft VAT guidance is made available to industry and professional stakeholders for further engagement in due course.

Our response can be found at: www.tax.org.uk/ref1118.

Jayne Simpson *jsimpson@ciot.org.uk*