

Draft regulations: VAT provisions for drink deposit return schemes

Sent by E-mail to: drs.consult@hmrc.gov.uk

(Link to consultation page: <https://www.gov.uk/government/consultations/draft-regulations-vat-provisions-for-drink-deposit-return-schemes>)

12th May 2023

To whom it may concern,

Draft regulations: VAT provisions for drink deposit return schemes - HMRC

The Scottish Grocers' Federation (SGF) is a trade association for the Scottish Convenience store sector. There are 5,098 convenience stores in Scotland, which includes all the major symbol groups, co-ops and convenience multiples in Scotland. SGF promotes responsible community retailing and works with key stakeholders to encourage a greater understanding of the contribution convenience retailers make to Scotland's communities. In addition, Convenience stores are known to be economic multipliers and an important source of local employment, providing over 49,000 jobs in Scotland.

Convenience stores trade across all locations in Scotland, providing a core grocery offer and expanding range of services in response to changing consumer demands close to where people live. According to our Scottish Local Shop Report 2022, the valued services provided by local shops include post office services (27%), bill payment services (78%) and free-to-use cash machines (49%).

With the UK convenience sector expected to grow to £48.6bn by 2025, the sector is more relevant than ever to every type of customer and has key social benefits and is of key economic value to the economy. Over the last year, the UK convenience sector contributed over £9.7bn in GVA and over £9bn in taxes (Scottish Local Shop Report 2022).

Scotland's Deposit Return Scheme is a key issue for convenience retailers and SGF welcomes the opportunity to respond to HMRC's Draft regulations: VAT provisions for drink deposit return schemes consultation.

SGF promotes responsible retailing and is fully committed to a functional and fit for purpose Deposit Return Scheme (DRS) for Scotland. The aim of SGF throughout the process has been to ensure that our members are fully aware of all the information they will need to know in order to comply to the scheme's objectives.

SGF holds regular meetings with the Scottish Government's Minister for Green Skills, Circular Economy and Biodiversity and is a founding member of Circularity Scotland (scheme administrators). We also have regular engagement with SEPA (scheme regulators) and Zero Waste Scotland.

Convenience stores in Scotland are already facing an extremely challenging trading environment and our sector has limited capacity to absorb further additional costs. This, in turn, impacts on customer footfall and household budgets for many communities. In order to comply to the scheme, retailers are required to navigate through a complex set of challenges and new regulations. It is essential that, wherever possible, steps are taken to ease the burden on business.

SGF notes the proposed measure to place the obligation to account for VAT on unreturned containers at a single step along the supply chain (producers or importers). We also welcome the decision that no other businesses further along the supply chain, such as wholesalers and retailers, will account for VAT on deposits at any point.

It is crucial that Return Point Operators do not have the added burden of accounting for VAT on the deposit amount. However, SGF has raised concerns regarding the method of reporting that will be required to facilitate this. It is not presently clear how accurate information on returned products will be collected at return points and passed to producers. We urge both the UK Government and the Scottish Government to clarify this issue for our members.

In addition, the proposed regulations sets out controls on when VAT will apply. With VAT due only on unredeemed deposits for unreturned containers. Nonetheless, it is expected that some scheme items (for example premium spirits) may not be returned for several years. SGF believes

it is important for the UK Government to clarify this point and take steps to ensure that producers are not left out of pocket.

We trust that you will find our comments helpful and are happy to engage further with you on this important matter.

Yours sincerely

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- SGF gives permission to the UK Government to publish its consultation response and to share this response internally with other policy departments, that may be addressing the issues discussed.
- SGF is also content to be contacted again in the future, in relation to this consultation exercise.