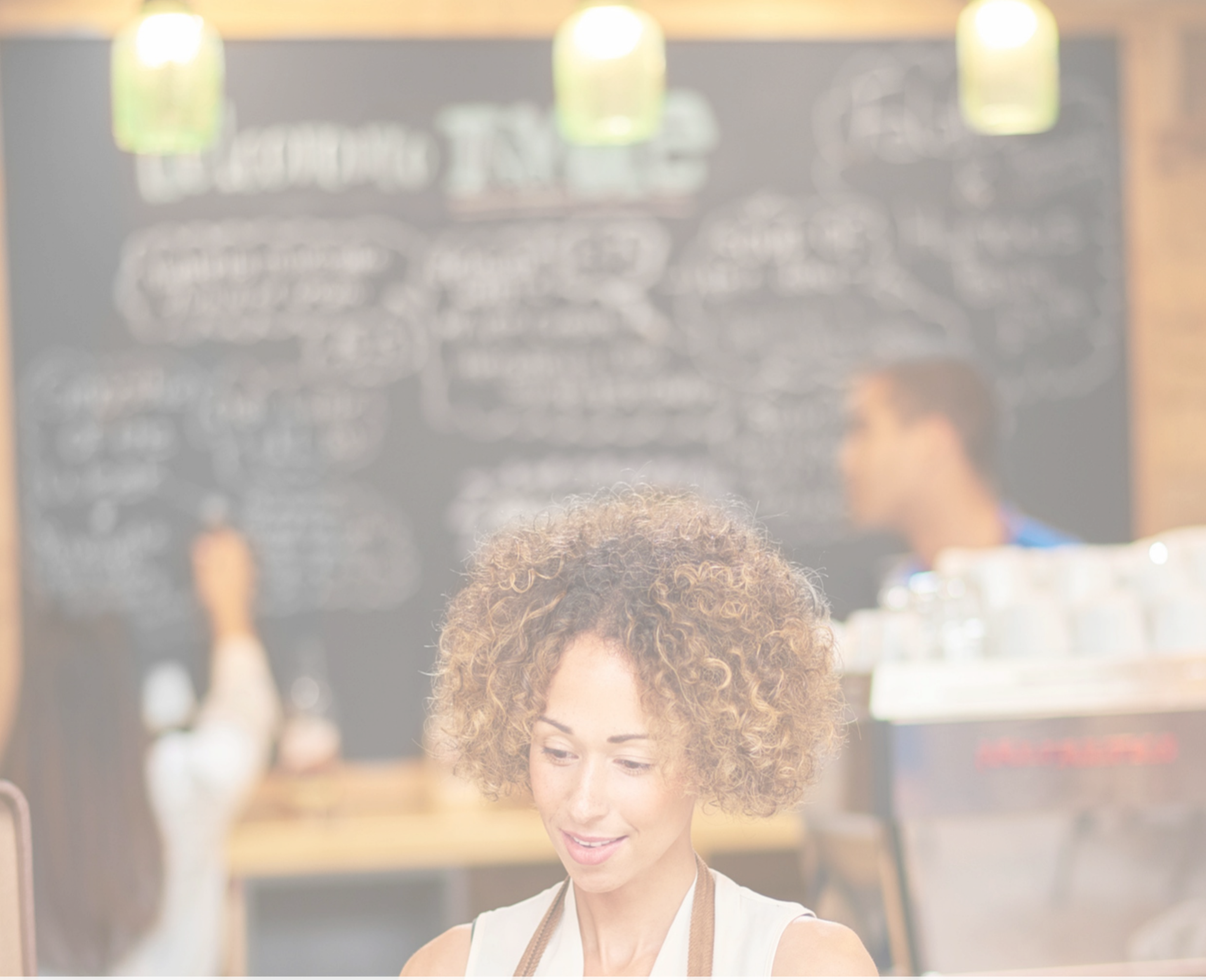
re-universe™



Cup ‘Return for Reuse’ Schemes

What about VAT?

Guide to accounting for VAT and deposits on returnable reusable cups

Deposit Return Model

Guide to accounting for VAT on deposits
On returnable reusable cups using the Deposit Return Scheme

Sale of drink to your customer with a deposit

At point of sale:

- Your chosen deposit value should be added to the amount charged to your customer as a separate item as security for the cup's safe return.
- Show the deposit separately on any invoice or receipt that you issue.
- Record deposits separately from your sales / takings.
- VAT charged as applicable for sale of drink under normal rules, excluding the deposit.

No VATable transaction occurs on the deposit. The deposit charged is outside the scope of VAT.

At refund of deposit:

- Refunds of deposits will generally be handled electronically via the re-universe platform or at point of sale for future purchases rather than paid out as cash from the till.
- Refunds may be:
  - Transferred to a bank account nominated by the customer.
  - Donated to charity.
  - Held as a voucher or credit (typically a QR code) against future purchases.

No VATable transaction occurs. The deposit refund is outside the scope of VAT.

Use of vouchers or credits:

- If the customer uses the voucher or credit to pay for the deposit on another drink:
  - The deposit is recorded as charged for the fresh cup and added to any receipt/invoice.
  - The deposit is recorded as paid for by redeeming the QR code (and that code will be cancelled) and deducted on any receipt/invoice.

No VATable transaction occurs at this point.

- If a customer uses the voucher or credit for purchases other than a fresh deposit:
  - The value redeemed is treated as payment for the goods sold.
  - The QR code is redeemed and cancelled.
  - You account for VAT on the sale of the goods at the appropriate rate.

Retention of deposits for cups not returned:

- If a cup is not returned the deposit may be retained in full:
  - No VATable transaction occurs at this point.
  - Record the deposit retained as revenue outside the scope of VAT.

Important

VAT is a complex tax. Our guidance should not be relied on and we strongly recommend seeking your own professional advice.

Our guidance is solely based on technical guidance in VAT manuals for HMRC staff and in particular the guidance contained in VATSC06120 reproduced below and available by following the link. This guidance may differ from interpretation of the underlying legislation.

It is important that your terms and conditions make it clear that the deposit is held as security for the safe return of the cup i.e. a 'security deposit'. If it is charged for the loan or hire of the cup VAT will be payable at the standard rate at the point of sale.

VATSC06120 - Consideration: Payments that are not consideration: Deposits

Deposits are generally taxable as described in VATSC05820. The circumstances where they are not consideration for a supply are described here.

Security deposits
A deposit taken as security, for example against the safe return of goods on hire, is not consideration for a supply. Typically, the terms of the contract will specify that the deposit is refundable subject to the safe return of the goods.
In the event of the deposit being forfeited, either in total or in part, the payment is outside the scope of VAT, for example because the customer has broken the terms of the contract by damaging the goods. The payment is therefore neither additional consideration for the original supply nor consideration for an extra supply of goods or services.

Returnable containers
It is common practice in some industries for a charge to be added to a supply of goods for the container until it is returned, for example the keg with beer.
It is important to establish exactly why the charge has been raised. If it has been raised purely to ensure the safe return of the container, and the charge is refunded on its return, this can be treated in the same way as a security deposit.

If the charge has been raised to cover the loan hire or use of the container then the charge represents consideration for a supply of services, even if is refundable when the container is returned.
If there is any doubt over what is supplied, it will be necessary to obtain a copy of the relevant agreements to establish the basis of the charge.
https://www.gov.uk/hmrc-internal-manuals/vat-supply-and-consideration/vatsc06120

Borrowed 'Library Book' Model

Guide to accounting for VAT on deposits
On returnable reusable cups using the borrowed / penalty charge system

Pre-sale:

- Customer downloads app
- Customer enters bank details

Sale of drink to your customer:

- VAT charged as applicable for sale of drink under normal rules.
- A VATable loan/hire occurs. At this point no VAT is due as the customer borrows at no charge.

Return of cup:

- No VATable transaction occurs.

Penalty for cups not returned:

- If a cup is not returned a charge is made to the customer:
    - VAT is chargeable at standard rate on the amount of the penalty on the basis that the cup is being borrowed by the customer for a longer period than originally intended and for which a charge is being made.
    - Additional sales / takings recorded for the penalty net of VAT.

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VATSC06140 - Consideration: Payments that are not consideration: Fines and penalty charges
A true fine or penalty is a separate payment from the standard charge for a supply. It is usually a sum of money levied as a consequence for a contravention of the terms of a contract and so does not form part of the consideration for a supply. The terms can also refer to money levied to penalise an unlawful act, for instance parking on yellow lines. This type of payment is also outside the scope of VAT since no supply has been made to the recipient of the payment.

Where a payment is described as a 'fine' or 'penalty' and is treated as outside the scope of VAT, the terms of any contract should be consulted to check any reference to what happens if its terms are broken. A check should also be made on whether anything has actually been supplied in return for the additional payment. Many payments described as fines or penalties are in fact an additional charge for a supply and so follow the same liability - see VATSC05840.

VATSC05840 - Consideration: Payments that are consideration: Fines and penalty charges
If a payment is a fine or penalty then it is not consideration for a supply - see VATSC06140. However, a payment may be described as such in instances where it is not a payment for the breaking of terms and conditions but is a further payment for a fulfilment of terms and conditions, and so is part of the consideration for the supply. In these cases the payments follow the same liability as the supply.

Video/DVD Hire Fines

Any fine by a video or DVD shop is an additional taxable supply for the extended use of a video/DVD. This was confirmed in the Tribunal case JG Leigh t/a Moor Lane Video (LON/89/83X) where the trader required borrowers to pay a fine if a video was returned late and claimed this was compensation since it was above the normal standard hire charge.

The tribunal decision was that the borrower had merely rented the video for a longer period and so the payment was further consideration for the supply. One of the reasons was that there was felt to be an air of unreality about the threat of legal action for a claim to damages of an amount no more than £2.50.

https://www.gov.uk/hmrc-internal-manuals/vat-supply-and-consideration/vatsc06140
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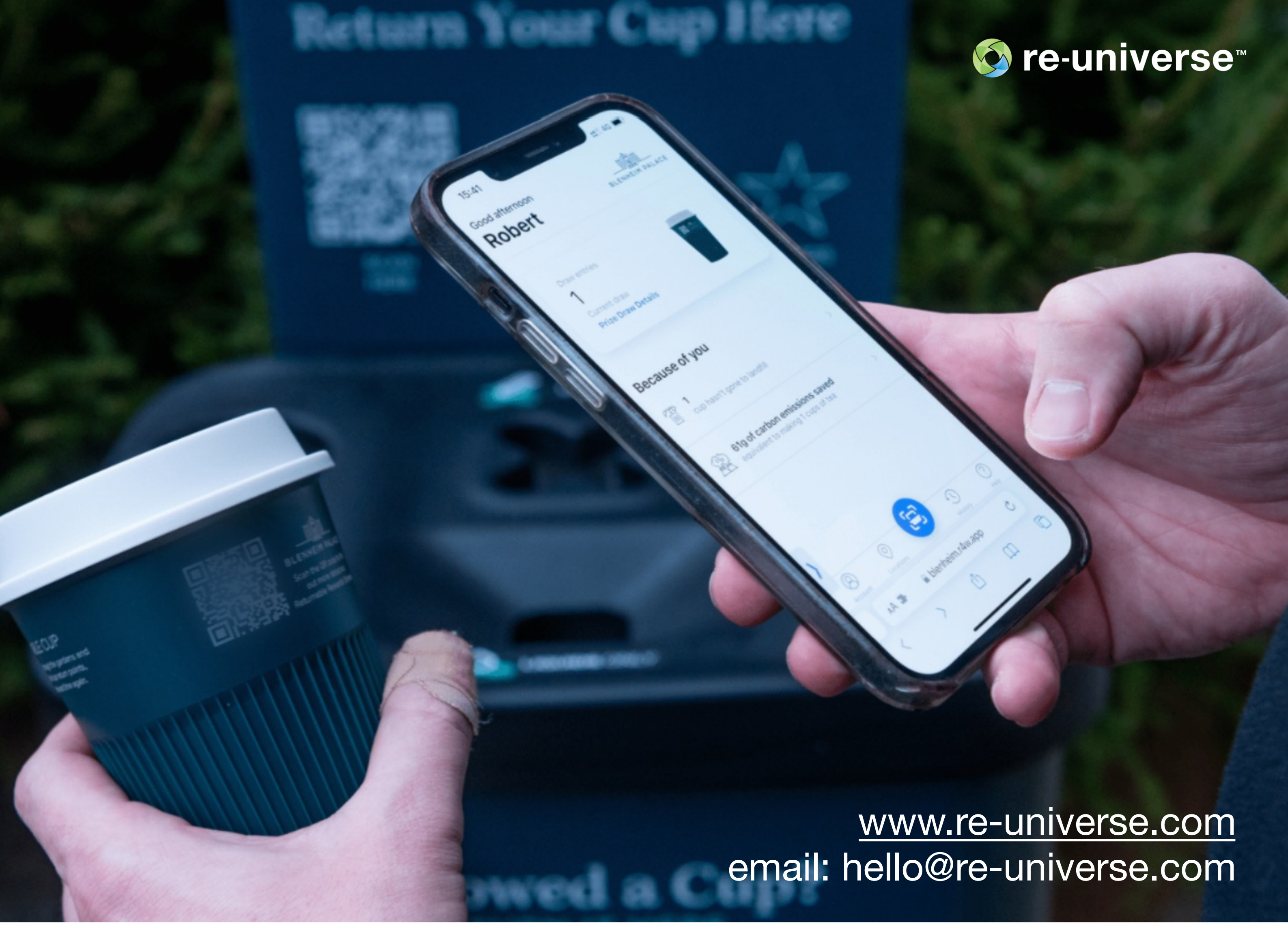

The re-universe digital returnable cup system is being showcased at Blenheim Palace in collaboration with Circular&Co.

re-universe have harnessed technology to develop a digital returns platform that can capture any item at any return point, incentivising people to return items for reuse or recycling through a pioneering DRS and/or reward scheme. Unique coding delivers item to-item traceability and rich data intelligence to assist brand owners with EPR and sustainability. Our real-world projects include partnering with well-known names such as evian, Wimbledon, Sainsbury's and Blenheim Palace.

Reusable packaging systems must be easy to use for widespread adoption

In order to retain containers in the system, a deposit is often attached to the container at point of purchase and refunded after return.

re-universe - enabling effective reuse schemes

The re-universe technology platform makes reuse schemes easy. One of the many benefits of the re-universe technology is that it offers a frictionless Deposit Return Scheme, so there is no need for users to register with their bank details before taking part. re-universe delivers a speedy in-app refund at point of cup return, making it easy for people to take part and easy for organisations to integrate into their business without the need to refund people at till.

Tried and tested at Blenheim Palace, the re-universe cup system has been optimised ready for roll out across public spaces, workplaces, universities, transport hubs, festivals and events.