



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

John Swinney MSP,
Deputy First Minister,
St Andrew's House,
Regent Road,
Edinburgh
EH1 3DG

10 February 2023

Dear John,

The Scottish Deposit Return Scheme

Thank you for your letter to the Chancellor of the Exchequer and Secretary of State for Levelling Up, Housing and Communities of 31 January regarding the Scottish Deposit Return Scheme. Your letter has been passed to the Treasury, and I'm replying as Minister responsible for the UK tax system.

First, I reiterate the UK Government's support for the environmental objectives of the Scottish Government's Container Deposit Return Scheme (DRS). Indeed, the Department for Environment, Food & Rural Affairs (Defra) has consulted twice on the introduction of equivalent schemes across the rest of the UK with an expected start date of 1 October 2025.

Regarding your concerns about the application of VAT to the DRS, officials in HM Treasury and HMRC have been working closely with their counterparts in Defra and the Scottish Government to ensure that DRSs operate effectively within the VAT rules. To these ends, we will legislate for changes designed to ensure that, wherever a container is returned for recycling, and the corresponding deposit is redeemed, VAT will not be applied to the deposit amount. However, once it is apparent that a deposit has not been redeemed, VAT will be due, with the liability falling on the producer who originally issued it.

In coming to this decision, Ministers considered a range of policy options. We ultimately decided that the aforementioned changes represent the best way to ensure that:

- The Government does not collect any additional revenue from DRSs
- No VAT will be charged where a DRS is meeting its environmental objectives.
- Overall administrative burdens for participating businesses are kept to a minimum.

My officials communicated this decision to their counterparts in the Scottish Government and Circularity Scotland on 02 February. On 10 February we shared the enclosed fact sheet that includes the details that businesses need to begin making the system changes required to comply with future VAT rules. Circularity Scotland and your officials will be able to use this as a basis for giving businesses early sight of the legislative changes that

will be announced at Spring Budget. A technical consultation on the Secondary Legislation after Budget will give businesses the opportunity to help us ensure that the new rules function as intended ahead of implementation in August this year.

Regarding your concerns about the interactions between the DRS and the UK Internal Market Act (UKIMA), we agree with the need for long-term alignment of schemes across the UK, wherever possible, to minimise burdens on industry and to ensure that we are able to deliver important environmental outcomes. We recognise your concerns regarding the period of time between Scotland's DRS launch date, in August 2023, and the launch of the rest of the UK's schemes in October 2025. Defra has assured me that its officials are working closely with counterparts in the Scottish Government and BEIS to scope and understand any implications associated with the UKIMA for the delivery of Scotland's DRS and welcome the constructive working relationships between officials as they go through these details.

We are aware that officials will be discussing assessment of UKIMA's impacts at the Resources and Waste Common Framework Working Group on 13 February 2023. The UK Government is committed to working with the Scottish Government and those of Wales and Northern Ireland, in line with the working arrangements agreed through the Common Framework, including consideration of an exclusion to the UKIMA should this be required.

I trust this provides the reassurance you are seeking.

Yours sincerely,



VICTORIA ATKINS MP