

# Plastic Packaging Tax



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# Overview of PPT



Do you **manufacture** or **import** a plastic packaging component?

Do you complete the **last substantial process** on a packaging component?

If you do any of the above you will need to maintain records and consider whether registration for PPT is required.

From 1 April 2022, Plastic Packaging Tax (PPT) will be introduced in the UK.

Designed to encourage the use of recycled rather than new plastic within plastic packaging.

Applied into law under:

- Part 2 of the Finance Act 2021
- The Plastic Packaging Tax (General) Regulations 2022
- Plastic Packaging Tax (Descriptions of Products) Regulations 2021





PPT will be calculated at **£200 per metric tonne**.

A liability for PPT arises when a chargeable plastic packaging component is:

- a) produced in the United Kingdom by a person acting in the course of a business, or
  - b) imported into the United Kingdom on behalf of such a person.
- 
- For Point A, the tax becomes liable once the component has undergone its **last substantial modification**. The tax point is the point of production not the point of sale.



## **Substantial Modification**

A substantial modification is a manufacturing process that changes the packaging components' features. The features are the:

- Shape
- Structure
- Thickness
- Weight



## Substantial Modification

Examples include:

**Extrusion** - Raw material is pressed through a die to form the shape.

**Moulding** - This is when plastic is moulded into a certain shape.

**Layering and laminating** - 2 or more layers are bonded together

**Forming** - A sheet of plastic is shaped into packaging by being heated and shaped.

**Printing** - Ink is applied to plastic, usually to provide detail about what will be going in the packaging





## **Not Substantial Modification**

**Blowing** - Blowing or otherwise forming a packaging component from a preform.

**Cutting** - Cutting the packaging, for example cutting film to size or cutting formed trays out of a larger sheet.

**Labelling** - Labelling the packaging, for example gluing a label to a tub or heating a shrink film label onto a bottle.

**Sealing** - Sealing the packaging, for example attaching a film lid onto a tub or attaching 2 sides of a piece of film to close a bag.



## Items included in the PPT (not exhaustive)

Packaging used in the supply chain:

bottles designed for single use	flexible food pouches	tamper proof seals
bottle tops or caps	film windows on items	clothes hangers designed for use in the supply chain
labels designed to present the goods	salad bags	plant pots designed to be sold with plants inside
ready meal trays	crisp packets	kimble tags
film designed to protect produce	biscuit wrappers	reusable plastic crates
yoghurt and soup pots	pallet wrap	pick bins used in warehouses
wrap designed to group products together	plastic film around a box	



## Items included in the PPT (not exhaustive)

Single use consumer packaging:

carrier bags	nappy sacks	ready meal and vegetable pouches and packets
bin liners and refuse sacks	disposable plastic bowls and plates	medical sharps bin (single use)
food bags (such as sandwich bags)	gift wrapping such as ribbon and sticky tape	



## Exemptions

There are Four types of plastic packing that are exempt from the tax. They are:

1.	Where used as transport packaging to import multiple goods safely into the UK (e.g. transport multiple sales units or grouped packaging or to prevent damage during transportation)
2.	Where used in aircraft, ship and rail goods stores
3.	Where used for the immediate packaging of licensed human medicine (in contact with)
4.	Where permanently recorded as set aside for non-packaging use (e.g. plastic film that will be used to coat whiteboards)



## Exclusions

There are Three types of plastic packing that are excluded from the tax. They are products deigned to be:

1. Used in the long-term storage of goods (e.g. Earbud cases, DVD Cases)
2. An integral part of the goods (e.g. Printer cartridges)
3. Reused for the presentation of goods (e.g. Point of Sale)



## Items excluded in the PPT (not exhaustive)

Packaging designed to be an integral part of the goods:

water filter cartridges	ink cartridges and ink refills	lipstick mechanism and case (but not the cap)
droppers and pipettes	dental floss cases	pump containers for toothpaste (but not toothpaste tubes)
printer and toner cartridges	tea bags	the roller ball of roll-on deodorant
inhalers	perforated rice bags	stick deodorant
lighters	mascara brush, wand, and cap (but not the bottle)	aerosol actuators



## Registration

The threshold for registration is 10mt per rolling 12 month period.

If the company expects to exceed the threshold then it must pre-register.

Registration is required whether the packaging is liable to the tax or not (e.g. >30% recycled).





## Work out the weight of a plastic packaging component

- You should work out the weight for each component you manufacture and/or import
- There are 5 methods for calculating the weight of plastic:
  - individual component method
  - sample component method
  - material inputs method
  - verified specification method
  - bulk weighing method
- If none of these methods are suitable, you can apply to use a different method
- If the specification or materials changes **a new assessment is required**





# Material Inputs Method

500kg of raw plastic granules



245,000 plastic cups  
(495kg)



Unit weight =  
2g per cup



5kg waste (1%)



## You can defer the PPT if you:

Intend to export  
the packaging  
from the UK

AND

Intend to export  
packaging within  
12 months

If the destination is not known at time of manufacture/import then PPT is due. A credit can be requested once the packaging has been exported.

For packaging that is manufactured and sent to a UK customer who later exports the packaging, the manufacturer can apply for a PPT credit on receipt of export evidence.

You must always ensure that your customers notify you of the intention to export.

If you claim a tax credit you can refund the PPT to your customer.



## Due Diligence

Must be completed at least annually and records retained to evidence these checks, such as:

<b>&lt;30% Recycled Plastic</b>	<b>&gt;30% Recycled Plastic</b>
<ol style="list-style-type: none"><li>1. Request confirmation of the tax status of plastic packaging components from your UK supplier</li><li>2. Get signed documents from your UK supplier confirming PPT has been properly accounted for</li><li>3. Obtain product specifications for the packaging components, including the weight and composition of the products</li><li>4. Physically check weight of packaging components to your purchase order and any of the product specifications</li></ol>	<ol style="list-style-type: none"><li>1. Check that the price you pay for packaging components reflects the current market value</li><li>2. Obtain copies of any certifications or audits that have been conducted on your suppliers, or the re-processors of recycled plastic</li><li>3. Complete physical inspections or audits on your packaging supply chain to prove information given by suppliers or customers</li><li>4. Check details provided against other sources, such as supplier and customer websites, product specifications, sales and marketing information</li></ol>



## Invoicing

Businesses are encouraged to make the Plastic Packaging Tax they have paid visible to their business customers.

The planned requirement to add a statement on the supply invoice has been delayed and will not be required on 1<sup>st</sup> April 2022.

HMRC will be publishing an appropriate “statement” to be used on invoices shortly.

**VAT may be liable on the PPT element.**



## Penalties

The following Penalties will apply for failing to comply with a relevant PPT requirement e.g., keeping records and payment.

- Initial fixed £500 penalty, plus
- a daily £40 penalty for continuing failures to comply, together with interest on late payments.

Severe criminal penalties can arise in cases of fraudulent evasion of PPT and for misstatements and false documents and conduct involving such offences.



# Importing





## Importing Scenario

- **Company A** is a producer of bottled drinks in France.
  - **Company A** sells the bottled drinks to UK-based **Company B**.
  - **Company B** sells to customers in the UK.
- 
1. Who is liable for the PPT?
    - This depends on the Incoterms.
    - DDP means **Company A** is liable to the PPT as they are the importer.
    - Any other term – **Company B** would be liable.



## Importing Scenario

2. What needs to be done to establish if PPT registration is required?

- Identify the method of calculation (e.g. Sample component method)
- Complete the sample weighing of all products imported into the UK and record details.
- Create a standing data file with the weights, or
- Add weights to ERP system (if possible)
- Use figures from April 2021 to determine possible registration point.





## **Do you need to adjust contracts with suppliers or customers?**

- Changes you may want to ensure are in contracts
  - Requirement to provide sufficient data on product packaging to allow for recording of applicable weights.
  - Requirement to review sourcing of plastic packaging with intention to increase recycled content.



## Mitigating the impact

- Steps which may mitigate the impact of PPT on your business
  - Discuss with supplier's the options for increasing the amount of recycled content – cost likely to be higher
  - Possible switch to alternative packaging (cardboard, corrugated, paper based)
  - Avoid oversized packaging that needs additional secondary packaging to secure the product



# Manufacturing





## **PPT will add costs for manufacturers**

- PPT is expected to raise about £250m a year across all liable businesses
- What costs might you need to consider?
  - Costs for components bought by you? (PPT has been added – who pays?)
  - Costs for products to be sold by you? (PPT to be added – who pays?)
  - Costs for compliance to ensure penalties do not arise
  - Ensuring the compliance cost does not exceed the tax due!



## Different issues for different persons in the supply chain

- PPT designed so that, operated correctly, it only arises once in the supply chain
- Should be the last of:
  1. The Packaging Manufacturer (may be obvious); or
  2. Person who makes the last significant modification (may be less obvious)
- Practical issues
  - Ensuring you know if you should be registered
  - If so, ensuring your returns are accurate – as simply as possible
  - Trying to avoid the tax being paid inadvertently by both!



## Where does the tax point arise?

- Do you **manufacture** or **import** a plastic packaging component?
- Do you complete the **last substantial modification** on a packaging component?
- A substantial modification is a manufacturing process that changes the packaging components' features. The features are the:
  - Shape
  - Structure
  - Thickness
  - Weight
- Identifying who in the supply chain is responsible for PPT will be key for accurate compliance – as that point may be different based on how a business' own processes work



## **Different businesses will have different issues**

- Example 1 – Packaging manufacturer
- Example 2 – Drinks manufacturer and bottler
- Example 3 – Luxury goods manufacturer



## Scenario 1 (Manufacturing of packaging)

- **Company A** is a UK manufacturer of moulded plastic packaging who sells to various companies in the UK and the EU who use the packaging as part of their process for creating a finished product (e.g. box of chocolates)
- **Company A** also purchases plastic shrink wrap from **Company B** for use in containing the products for transport to its customers.

### 1. Who is liable for the PPT?

- **Company A** is liable for the PPT on the packaging it manufactures as it is in its finished state when sold to its UK customers;
- For products made by **Company A** which are designated for export (to EU customer) it is likely the PPT can be *deferred*;
- **Company B** is liable for the PPT on the plastic shrink wrap so the supply to **Company A** should have PPT included but may be able to claim a credit if A pays PPT;
- **Company A** and **Company B** may also be able to claim a credit if they can show the plastic packaging has in fact been exported.





## Scenario 1 (Manufacturing of packaging)

2. What needs to be done to establish if PPT registration is required?
  - The following data must be collated for each product containing plastic:
    - a) For the moulded packaging made by **Company A** - either use the Material Inputs or Bulk Weighing Method to calculate the total plastic used in a production run.
    - b) For >30% rule, production records should confirm the content of the recycled material in the production run.
    - c) For the shrink wrap, it must be confirmed that the PPT is being paid by the supplier (if they are registered).
    - d) Confirm the quantity of packaging per unit and use production data to confirm the tonnage of packaging produced.
    - e) Check April 2021 sales figures to confirm if PPT registration is required.



## Scenario 2 (Drinks manufacturer and bottler)

- **Company F** is a UK manufacturer of soft drinks who manufactures “own brand” products for UK retailers and who bottles the manufactured drinks in plastic bottles
- **Company F** has a bottle blowing machine which blow moulds the bottles from preforms which have been acquired from a manufacturer **Company D**
- **Company F** fills the bottles and then adds ready moulded plastic bottle caps
- The drinks are shrink wrapped into branded packs of 6, the design of the shrink wrap sleeve is determined by **Company F**
- In terms of PPT:
  - HMRC’s guidance states **Company F** is *not* substantially modifying the blanks from **Company D** (see HMRC guidance March 2022)
  - **Company F** would however be likely to have substantially modified the shrink wrap bought from **Company B** when using that to make the packs of 6 bottles
  - **Company F** would not have substantially modified the bottle caps



## Scenario 3 (Luxury goods manufacturer)

- **Company X** makes luxury consumer goods and packages those in boxes which are constructed of cardboard and plastic
- The boxes are then wrapped in protective film from **Company B** as an outer wrapper
- The boxes then have additional protective disposable outer plastic packaging (a sleeve) applied to ensure the goods reach the retailer in perfect condition – again supplied from **Company B**
- The goods are exported around the world to retailers
- The company also operates an online retail platform which is direct to consumer
- **Company X** will need to consider the liability for PPT in relation to the outer wrapper
- **Company B** may be able to seek a credit in relation to PPT paid by it if **Company X** exports or substantially modifies the packaging supplied by **B** to **X**



## Practical issues for PPT tax credits

### Scenario 1 - export

- Account for and pay PPT on a plastic packaging component that is then exported

#### **Always intended to export**

Defer payment of PPT

Cancel PPT if exported within 12 months

You'll need proof of export

#### **Manufacture but in fact exported later by you or another business**

Apply for tax credit on the PPT paid

- Evidence of PPT paid by you
- How will you know component has been exported?
- Potential to refund the customer the PPT included in the cost to them, if you have been able to claim a credit



## Practical issues for PPT tax credits

### Scenario 2 – paid PPT and then component modified by other business

- Account for and pay PPT on a plastic packaging component that another business then modifies sufficiently to be the *last substantial modification* which means they are now liable for PPT on what has become a new component
- You can potentially claim a tax credit for the PPT you originally paid





## Tax credits – you’ll need evidence

- You’ll need evidence:
  - Export
    - Eg can you prove it has been exported?
  - Substantial modification?
    - Eg can you prove the party now liable has paid PPT on the “new” component which is a substantial modification of your plastic component
- What PPT did you pay on the items supplied where you are now seeking a credit
- Credit can only be claimed by the original party who has paid the original PPT
- Set credit off against future liabilities, or potentially ask to be repaid if deregistered for PPT



## Due diligence is key

- Be able to prove why you haven't registered – if you don't
- Due Diligence within the supply chain
  - The manufacturer needs to inform its customers that any PPT has been paid
  - The customers need to have confirmation that the manufacturer has paid any PPT where that is required
  - There are rules regarding what is “recycled” for the purposes of PPT – so check before claiming exemption
  - May include obtaining copies of certifications of audits on suppliers (eg where >30% recycled is claimed) and details of re-processors
- If the levels of packaging do not meet the registration threshold then evidence needs to be retained by all parties.



## Secondary, or joint and several liability

- Passes the liability on to the party who should have done the due diligence, but didn't
  - Similar to the rules for (eg) missing trader fraud for VAT
  - Businesses can be held jointly or secondarily liable for the PPT where they knew, or had reasonable grounds to suspect, PPT hadn't been paid
  - In particular if HMRC have flagged a business in the supply chain had previously not applied PPT correctly
- Eg have you bought plastic at a cost which is below the current MV? Why is it costing less than MV?
- Can you show that your business has taken reasonable steps to ensure PPT has been accounted for in the supply chain





## **Do you need to adjust contracts with suppliers or customers?**

- Changes you may want to ensure are in contracts
  - Requirement to operate PPT correctly (indemnity for any failure)
  - Price adjustment for PPT
  - Ability to ensure any changes to the plastics which amount to substantial modification are highlighted to you (to enable a credit claim)



## Mitigating the impact

- Steps which may mitigate the impact of PPT on your business
  - Change materials to recycled (ie are there equivalent versions where recycled content higher) – cost likely to be higher
  - Switch to alternative packaging (cardboard, corrugated, paper based)
  - Reusable containers
  - Avoid oversized packaging that needs additional secondary packaging to secure the product



## How will you track the information for your reporting?

- Ensure the information is tracked as simply as possible as the operational transactions occur
- This may not be best done via “the finance team” – it might be easier if:
  - Procurement processes (materials specifications)
  - Build of Materials or Job Costing on orders
  - Track automatically via ERP systems
- Information needed for any PPT returns



# Farmers & Food Producers



An additional cost of £200 per tonne of plastic.

Applies to plastic packaging used right through the supply chain for the purpose of containing, protecting, handling, presenting and delivering, and to single use consumer plastics such as yoghurt pots and the plastic bags apples are sometimes sold in.

Taxable businesses will be expected to hold detailed information on packaging components which will likely include total weight of plastic packaging, weight of plastic packaging incorporating at least 30% recycled plastics and formulas for plastic packaging to evidence which components are subject to taxation.



- Due diligence will need to be carried out at the tax point. If a business buying plastic packaging components believes the tax should have been paid by a supplier and it is not **clearly evidenced on invoices**, that business may be subject to secondary liability.
- Businesses may also be expected to carry out **due diligence** on their supply chains to increase transparency in the production of plastic packaging material and ensure tax calculations submitted to HMRC are accurate.
- Businesses using less than **10 tonnes of plastic packaging** per year will be exempt
- **Silage Exemption** for Farmers in UK. Not considered final packaging.



## How can we minimise the liability?

- There are only 3 types of plastic products which do meet the definition of plastic packaging but are excluded from the tax.
- These do not need to be included when calculating the total weight of packaging manufactured or imported.
- They are products which are designed to be used for long-term storage, are an integral part of the goods (this does not apply to ready meal trays) or are reused for the presentation of goods.
- The taxable business is the one that completes the 'last substantial modification' to the plastic packaging component.
- If the last substantial modification is made at the point where empty packaging is filled with product, then it will be the last substantial modification prior to this.



## How can we minimise the liability?

### Opportunities

- Reduce the use of qualifying plastic packaging.  
Higher Recycled Content DM30%
- experience to benchmark best practice and drive efficiencies in your audit process.
- Packaging re-design to minimise weight.
- Incorporate materials which are exempt from the tax (subject to comparative cost analysis)  
Glass / Paper.
- Smaller Packaging (Think Bisto!)
- R&D opportunity.....





## What can we do now?

1. Speak to a tax advisor to assess your individual circumstances and gain clarity around any exemptions that may apply (such as silage wrap).
2. Audit and benchmark your use of plastic packaging to get an indication of your tax liability
3. Open dialogue with suppliers and customers to discuss alternative packaging options (passing on cost is unlikely)
4. Check whether your records provide sufficiently detailed information for HMRC and implement greater scrutiny and record-keeping if required.
5. Clarify with your supply chain where the last substantial modification occurs and agree the tax point. Invoices will need to be explicit about who has paid the tax.
6. Is it planned within your comprehensive ESG Approach?
7. Talk to people who understand the subject.....



# Types of recycling



Under the PPT regulations there are specific types of recycling that can be considered as part of the 30% assessment. They are:

**Recovered material:**

Pre-consumer plastic or post-consumer plastic that has been collected and recovered as a material input.

It's used for a recycling or manufacturing process instead of new primary material.

Recovered material would otherwise have been disposed of as waste or used for energy recovery.



Under the PPT regulations there are specific types of recycling that can be considered as part of the 30% assessment. They are:

**Pre-consumer plastic:**

plastic which is recovered from waste generated in a manufacturing process. It is then processed by a reprocessing facility, which could be on the same site as the manufacturing process.

It does not include plastic that is reused in the same process it was generated as scrap, and from which it was recovered. This is often known as scrap and regrind.



Under the PPT regulations there are specific types of recycling that can be considered as part of the 30% assessment. They are:

### **Post-consumer plastic**

This is plastic that is generated by the end user of the product. The product can then no longer be used for its intended purpose.

The consumers are:

- households
- commercial facilities
- industrial facilities
- institutional facilities



# Calculating the Tax & PPT Returns



## **PPT Returns**

Returns will need to be submitted to HMRC for the following quarterly periods:

- 1 April to 30 June
- 1 July to 30 September
- 1 October to 31 December
- 1 January to 31 March

The return must be submitted and any tax paid no later than the last working day of the month following the end of the accounting period being reported.



## Calculating the Tax

- Records must be held that enable the following information to be collated for the quarterly PPT return.
- They must be able to provide the total weight of finished plastic packaging components:
  - **manufactured** in the UK
  - **imported** into the UK
  - **not subject to the tax**
  - manufactured or imported for use in the immediate packaging of **licenced human medicines**
  - manufactured or imported in this accounting period which are **due for export** by you
  - that contain at least **30% recycled plastic** content
  - for which a **credit** is being claimed





## Documentation

The following are listed as evidence required by HMRC to support the claim for exemption or confirming products liable to the tax:

- Production specification
- Contracts
- Production certificates and certificates of conformity
- Accounting Systems Accreditations and international standards
- Quality assurance audits by a reputable third party
- Sales and purchase invoices
- Environment Agency accreditation and equivalent approvals from other environmental regulators
- Export documents
- Import documents



## What services can we provide?

- **Audit** – We can assist in reviewing the calculation of plastic content and ensure satisfactory records and processes are in place to meet the PPT legislation.
- **Registration** – If the 10MT threshold is met, either prior to 1<sup>st</sup> April or later, we can submit the application for the client.
- **Returns** – We can submit the quarterly returns on behalf of the client.
- **Annual Reviews** – To ensure PPT is being operated correctly, we can conduct annual reviews to ensure the necessary evidence is in place and recommend any changes to existing processes/documentation.

# Any Questions?



# Contact us



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