

THE INDEPENDENT COFFEE COLLECTIVE

A report by John Richardson - The Cafe Expert

# Why UK Coffee Shops Are Struggling

The Hidden Tax Burden - Why Most Owners Can't Afford to Wait for It to Change

**Why a VAT reduction to 10% is the single most important change the Government could make**

**20+**

Taxes, levies  
& mandatory costs

**2nd**

Highest VAT  
rate in Europe

**13,250**

Hospitality businesses  
insolvent since 2022

Co-authored with Peter Dore-Smith - Kaffeine and  
Nick Cooper - Indy Coffee Guide

# Why UK Coffee Shops Are Struggling

*The Hidden Tax Burden - And Why Most Owners Cannot Afford to Wait for It to Change*

Why a VAT reduction to 10% is the single most important change the Government could make

**John Richardson (@thecafeexpert)**

**The Independent Coffee Collective**

Co-published with Peter **Dore-Smith** (Kaffeine) & **Nick Cooper** (Indy Coffee Guide) | March 2026

This report documents every tax, levy, and government-mandated cost facing a UK coffee shop owner. It is written for café owners, industry bodies, and Members of Parliament. The figures are sourced from GOV.UK, HMRC, and official rate schedules current as of March 2026. Nothing has been inflated or exaggerated - the case made here does not need to be. This report sets out the full picture - and why understanding it has become essential for survival.

*The figures and legislative information in this report have been independently verified against primary government sources - GOV.UK, HMRC, OBR, and official rate schedules - current as at March 2026. Every effort has been made to ensure accuracy. Tax rates, thresholds, and legislation change frequently, and readers should verify any figure that is material to a financial or business decision against current official sources or with their own professional adviser. This report is for information purposes only and does not constitute legal or tax advice.*

**20+**

separate taxes, levies & mandatory costs

**2nd**

highest VAT rate in Europe - beaten only by Denmark

**13,250+**

hospitality businesses insolvent since VAT returned to 20% in April 2022 - out of approximately 177,000 registered businesses in the sector

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## WHY LISTEN TO US?

Between us, we represent over 100 years of experience in the café and hospitality industry, with direct access to thousands of operators and real-world financial data across the sector. This report is built on what is actually happening inside coffee shops - not theory, but the numbers operators are working with every day.

### John Richardson - The Cafe Expert

John Richardson has over 35 years' experience in hospitality, having built, operated and scaled 13 food and beverage brands, employing nearly 1,000 people and generating over £30 million in sales. For the past 20 years, he has worked as a consultant, advisor and author specialising in coffee shop profitability, working with hundreds of cafés across the UK and internationally.

He has analysed thousands of profit and loss statements - and continues to review hundreds every year - giving him a uniquely clear view of the patterns that separate businesses that survive from those that don't. John is the founder and lead coach at The Café Experts, where he works directly with café owners to improve profitability, build financially sustainable businesses, and navigate the realities outlined in this report.

### Peter Dore-Smith - Kaffeine

Founder of Kaffeine, one of London's most respected independent coffee businesses. A pioneer of the UK specialty coffee movement with deep operator insight and an extensive industry network.

### Nick Cooper - Indy Coffee Guide

Founder of the Independent Coffee Guide, working with over 1,000 independent cafés across the UK, providing real-time insight into the challenges and opportunities facing the sector.

### Elliot Gard - Caffè Culture

Event Director of the Caffè Culture Show, with over 20 years' experience and direct access to industry-wide trends, operators and suppliers across the UK.

## 1. WHY THIS REPORT EXISTS

Every week, another coffee shop closes. Not because the owner doesn't care. Not because customers stopped coming. But because the numbers no longer work. Running a coffee shop in the UK in 2026 means operating inside a system of more than twenty separate taxes, levies, and government-mandated costs - many of them invisible, most of them increasing, all of them unavoidable.

Individually, each of these costs can be explained...

Collectively, they create a financial structure that is far more fragile than it appears from the outside.

This report does not argue that taxation is wrong, or that coffee shop owners should not contribute to public finances. They already do - significantly. The argument is simpler: the cumulative burden has reached a level that is structurally damaging the sector.

**And within that system, one lever stands out above all others: VAT.**

But understanding the system matters just as much as changing it. Most coffee shop owners are not failing because they are not working hard enough. They are failing because the numbers they are operating within are far less forgiving than they appear.

The case for that change is both fair and economic.

**The fairness case:** the UK levies the second-highest rate of VAT in Europe, applying a rate that no comparable economy uses for the hospitality sector.

**The economic case:** when a coffee shop closes under the weight of that burden, the government does not collect more tax. It collects nothing. Every closure is a permanent fiscal loss, not a neutral event.

The numbers in this report are sourced, stated, and conservative. They are intended to be shared - with colleagues, with industry bodies, trade and with Members of Parliament. If you find them useful, please pass this on.

## 2. THE VAT CASE - WHY THIS IS THE LEVER TO PULL

VAT is the starting point because it is the largest single obligation, the most structurally distorting, and the one where reform would have the most immediate and widespread impact. It is also the area where the UK is most out of step with comparable economies.

### The European comparison

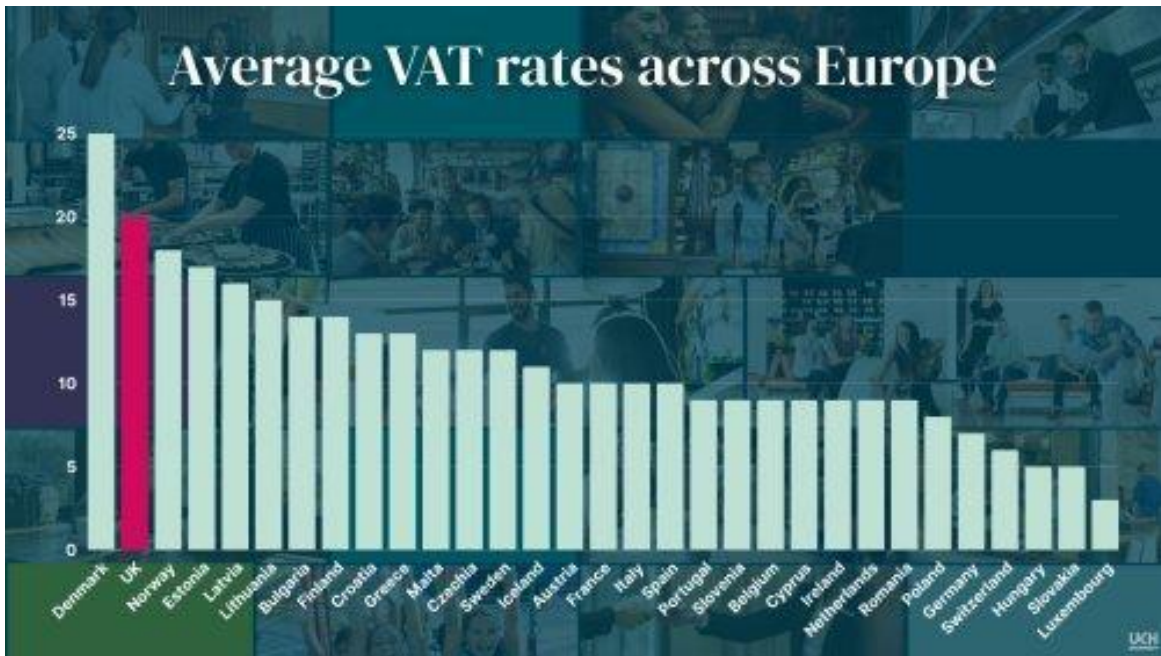
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The chart below shows average VAT rates across Europe. The UK sits at 20% - the second highest on the continent, beaten only by Denmark.

France has operated a 10% hospitality rate since 2014.

Ireland, which ran a reduced rate experimentally from 2011, reviewed it, extended it, and legislated it permanently at 9% from July 2026.

These are not fringe economies taking unconventional risks. They are the UK's closest trading partners and competitors, and they have each concluded that taxing hospitality at the standard rate works against the government's own long-term interests.



Source: UKHospitality. Average VAT rates across Europe — the UK highlighted in red.

N.B. Poland does have 8% for hospitality but only on food (5% on pre-made, take-away food). However, drinks (including coffee) are charged at 23% VAT.

## What VAT actually means inside a coffee shop

When a customer spends £1.00 in a coffee shop where most of the menu is standard-rated, approximately 17p of that pound goes to HMRC before the business has paid any other bill. Not from profit. From the top of the till. The business collects it, holds it briefly, and remits it. It was never available to run the business.

The difficulty is that the customer sees a price on the menu and makes a judgement about value and affordability. They do not see £1.00 split into 83p business revenue and 17p government collection. That number does not exist in their experience - but it shapes every pricing decision the owner makes, every month, for the life of the business.

## What happens when it becomes too much

Since VAT returned to 20% in April 2022, the data tells a clear story:

The evidence	Source
13,250+ accommodation and food businesses entered formal insolvency between 2022 and 2025 - out of approximately 177,000 registered businesses in the sector	<i>Insolvency Service Official Statistics; Buchler Phillips Hospitality Index 2024-25</i>
The sector represents 6.5% of registered UK businesses - but 14% of all corporate insolvencies	<i>ONS UK Business Count (IDBR), October 2024</i>
89,000 hospitality jobs were lost in the ten months following the October 2024 Budget - from a sector	<i>UKHospitality / ONS PAYE RTI, August 2025</i>

employing approximately 3.5 million people across those 177,000 businesses	
Independent restaurant numbers are down 17% since 2020 - gaps that have stayed gaps	<i>Buchler Phillips Hospitality Index 2024–25</i>
When a hospitality business becomes insolvent, HMRC recovers on average 5p for every pound it is owed	<i>HMRC Annual Report and Accounts 2024–25</i>

*The analysis of insolvency costs and the full fiscal argument for VAT reform is developed in depth by Dan O'Regan in 'The 20% Sitting at Every Table' (Notes on a Napkin, Substack, March 2026). This report draws on that work with gratitude and recommends it to anyone seeking the detailed economic modelling. O'Regan's modelling estimates a gross year-one cost of approximately £5.6bn from a reduction to 12.5%, with a net cost of around £4.9bn after offsetting employment tax, corporation tax, and insolvency cost savings. The equivalent figures for a 10% rate would be higher in year one, but the modelling demonstrates that the cost to the Treasury of continued closures compounds annually and ultimately exceeds the cost of reform - on a medium-term horizon that the government has not yet modelled.*

The critical point - and the one that is absent from most government analysis - is this: **a closed coffee shop does not pay reduced tax. It pays no tax at all.** The VAT it was generating, the employer NI, the PAYE on its staff's wages, the business rates - all of it stops, permanently. The 5p recovery rate from insolvency proceedings means that by the time a business fails, HMRC has already lost the argument.

## The ask

**A permanent reduction in VAT for the hospitality sector from 20% to 10%.** The UK demonstrated between 2020 and 2022 that a reduced hospitality rate is administratively straightforward - first at 5%, then at 12.5%. France has operated 10% since 2014. Ireland legislated 9% permanently from July 2026. The case is proven. The ask is to act on it.

At 10%, a coffee shop charging £3.50 for a flat white collects 32p for HMRC rather than 58p. The business retains more. Prices can ease. Margins improve from an average of around 4-5% to something that can absorb a broken boiler in January or an unexpected rent review without triggering insolvency. And the government continues to collect tax - from a sector that remains alive and trading, rather than one that is slowly contracting.

*And yet, within this same system, some operators are still building sustainable businesses. The difference is not the environment. It is how well that environment is understood.*

## 3. THE FULL OBLIGATIONS REGISTER

The following is a complete register of every tax, levy, charge, and government-mandated obligation a UK coffee shop owner must navigate. The financial scale of each is explored in the accompanying Part Two. What matters here is the volume and variety - because it is the combination, not any single item, that creates the burden.

### Direct taxes

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1. **VAT - 20%** on standard-rated sales (hot drinks, eat-in food). Complex rules on hot vs cold, eat-in vs takeaway, create ongoing classification risk and audit exposure even for experienced operators.
2. **Corporation Tax** - 19-25% on profits for limited companies. Small profits rate 19%, main rate 25% above £250,000.
3. **Income Tax** - 20-45% for sole traders and partnerships on profit after allowances.
4. **Business Rates** - annual charge based on rateable value, set by the Valuation Office Agency. See Section 4 for the growth penalty.
5. **Employer's National Insurance** - 15% on employee wages above £5,000 per employee (from April 2025, reduced from £9,100). This single threshold change was the largest increase in employment cost in a generation for high-headcount businesses.
6. **Employee NI and PAYE** - collected and remitted by the employer at zero fee to HMRC. The business is a statutory tax collection agency for every member of staff, at its own cost and administrative burden.
7. **Insurance Premium Tax** - 12% on all commercial insurance premiums. Non-negotiable, invisible inside every quote: public liability, employers' liability, contents, vehicles, business interruption.

### Energy taxes and levies

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Between 30-35% of a commercial electricity bill is government policy costs - not the cost of the energy itself. These levies never appear as a separate line item; they are embedded in the unit rate.

8. **Climate Change Levy (CCL)** - charged per unit of electricity and gas used for business purposes.
9. **Renewable Obligation / Contracts for Difference levy / Capacity Market levy** - policy costs funding renewable energy and backup capacity, embedded in the unit rate.
10. **Energy Company Obligation (ECO)** - a home insulation scheme whose cost is socialised across all commercial energy users.
11. **Feed-in Tariff legacy costs** - the old solar subsidy scheme, still being recovered through energy bills.

### Fuel and transport

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12. **Fuel Duty** - 52.95p per litre, with confirmed phased increases from September 2026 returning to 57.95p/litre by March 2027. VAT is then charged on top of the duty-inclusive price — a tax on a tax.
13. **Vehicle Excise Duty and MOT** - statutory annual charges on any business vehicle.

14. **Congestion Charge (London)** - £18/day from 2 January 2026. The full EV exemption ended 25 December 2025 - EVs now pay £13.50/day.
15. **ULEZ / Clean Air Zone charges** - daily charges now active in London and multiple other UK cities for older vehicles.

## Alcohol duty and licensing *(only applies to licensed premises)*

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16. **Spirits Duty** - £33.99/litre of pure alcohol from 1 February 2026.
17. **Beer and Wine Duty** - per litre/ABV; rates restructured by strength from 2023.
18. **VAT on alcohol** - 20% applied on top of the duty-inclusive price.
19. **Premises Licence and Personal Licence fees** - annual local authority charges; the DPS must hold a personal licence requiring training and a DBS check.

## Environmental and waste taxes

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20. **Landfill Tax** - £126.15/tonne (2025/26), rising to £130.75/tonne from 1 April 2026. Embedded in every commercial waste collection invoice - the business never sees it as a separate charge.
21. **Plastic Packaging Tax** - £223.69/tonne (from April 2025), rising to £228.82/tonne from April 2026. In packaging supplier pricing.
22. **Soft Drinks Industry Levy (SDIL / Sugar Tax)** - £0.259/litre (high band) and £0.194/litre (low band) from April 2025. Passed on in full by wholesale suppliers. Extension to milk-based drinks and threshold reduction to 4.5g/100ml confirmed from January 2028.

## Employment quasi-taxes

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These are government-mandated costs that function identically to taxes on employment - compulsory, calculated on payroll, with penalties for non-compliance - but which never appear in headline tax rate discussions.

23. **Auto-Enrolment Pension** - minimum 3% employer contribution on qualifying earnings. Mandatory for all eligible workers.
24. **Statutory Sick Pay (SSP)** - employer-funded at £118.75/week currently, rising to £123.25/week from April 2026. Major reforms from 6 April 2026 will significantly extend employer liability. See Section 5.
25. **Statutory Maternity / Paternity Pay** - employer-funded and administered; partially reclaimable for smaller employers.
26. **National Living Wage** - £12.21/hour from April 2025, rising to £12.71/hour from 1 April 2026. Every contract, every payroll system, every schedule must be updated every year.

## Licensing, regulatory and compliance charges

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27. **The Music Licence (PPL PRS)** - mandatory annual fee to play any music - radio, streaming, or a curated playlist. A civil offence to play without it.

28. **ICO Registration** - required for any business handling personal data: loyalty cards, CCTV, email marketing. Annual fee.
29. **Companies House Confirmation Statement** - £50/year (from February 2026, up from £34 in May 2024). Identity verification now mandatory for all directors from November 2025.
30. **Health & Safety (PAT testing, fire risk, legionella, COSHH)** - all statutory; all require qualified contractors annually.
31. **Food Business Registration and hygiene compliance** - mandatory with the local authority; failure to maintain standards can result in forced closure.
32. **Employment (Allocation of Tips) Act 2023** - in force since October 2024. Requires employers to pass 100% of tips to workers, maintain a written tips policy, keep tip records for three years, and ensure fair distribution via a tronc system, if applicable. Non-compliance can result in Employment Tribunal claims. The compliance cost - record-keeping systems, payroll integration, and policy documentation - is an obligation that falls entirely on the employer.

## 4. BUSINESS RATES - THE HIDDEN TAX ON GROWTH

Business rates are a significant fixed cost for any coffee shop. But the rules contain something less well understood: **a structural disincentive to growth** that penalises the moment a second location is opened, regardless of whether that second location is profitable.

### The single-site position

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33. **100% Small Business Rate Relief (SBRR)** - available for businesses with a single property and a rateable value below £12,000. Rates bill: zero.
34. **Tapered relief** - applies between £12,000 and £15,000 rateable value.
35. **Above £15,000** - no relief. Properties with a rateable value below £51,000 use the small business multiplier of 49.9p (2025/26). A café with a rateable value of £35,000 pays approximately £17,465/year.

### The April 2026 rates cliff

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For the past five years, coffee shops and cafés have benefited from Retail, Hospitality and Leisure (RHL) relief - a temporary government subsidy that significantly reduced rates bills. The trajectory has been: 100% relief during COVID, then 75%, then 40% in 2025/26. In practice, a café with a rateable value of £35,000 has been paying approximately £10,500 this year - and as little as £4,400 in 2023/24. Many operators have come to rely on this relief in their cash flow planning.

From April 2026, that 40% relief disappears entirely. It is replaced by **a new permanent RHL multiplier of 38.2p - presented by the government as a “permanent tax cut” for hospitality**. On a £35,000 RV property, the new multiplier produces a bill of £13,370. That sounds lower than the standard multiplier figure - but it is significantly higher than what operators have been paying under the relief regime, and higher still for many businesses where post-revaluation RVs have increased. The government's own factsheet acknowledges that the lower multiplier does not fully offset post-COVID revaluations for many hospitality properties.

One further detail that deserves attention: when the new permanent RHL multiplier was set, pubs were given an additional 15% relief on top of it...

#### **Cafés and coffee shops were not.**

The government made a deliberate policy distinction between two types of hospitality businesses, and the beneficiary was not the café.

For an MP audience, this is worth sitting with: it demonstrates that the April 2026 business rates settlement was not a blanket reform of hospitality rates. It was a reform that treated some operators as worth protecting and others as not.

The question of why coffee shops were excluded, and whether that decision should be revisited, is a legitimate one to put to ministers.

Rates trajectory for a single-site café with RV £35,000:

Year	Relief applied	Multiplier used	Approx. annual bill (RV £35K)
2022/23	75% RHL relief	49.9p SB multiplier	~£4,365
2023/24	75% RHL relief	49.9p SB multiplier	~£4,365
2024/25	75% RHL relief	49.9p SB multiplier	~£4,365
2025/26	40% RHL relief	49.9p SB multiplier	~£10,479
<b>2026/27 onwards</b>	<b>No relief (new permanent RHL multiplier)</b>	<b>38.2p RHL multiplier</b>	<b>~£13,370</b>

## The second-site trap

SBRR applies only to businesses occupying a single property. The moment a second premises is acquired - however small - the relief position changes immediately and completely, subject to a grace period on the first property (see below):

36. **SBRR is lost on the main property.** SBRR is retained on the main property for a grace period of three years (extended from one year at the Autumn Budget, November 2025). After that, the full liability on Site 1 lands in a single hit - potentially £10,000 - £25,000+ per year. The cliff is deferred, not removed.
37. **Both properties pay independently.** There is no combined allowance. Site 2 adds its own bill from day one.
38. **Site 2 pays in full from day one.** An operator can open a second site on a Monday and face a rates bill that has doubled or tripled by the following April - before the second site has served its first customer.

### Worked example:

- A single-site café with a rateable value of £11,000 pays £0 in rates under SBRR.
- It opens a small second site with rateable value £8,000.
- Site 2 pays in full immediately: approximately £3,192/year ( $49.9p \times £8,000$ ).
- The first property retains its SBRR during the three-year grace period, so no additional cost there yet.
- At year three, SBRR on Site 1 is lost: approximately £5,489/year ( $49.9p \times £11,000$ ) lands as a new fixed cost.
- Total new rates exposure at year three: approximately £8,681/year - before the second site has necessarily turned a profit.
- The government knows the cliff exists. It has moved it three years further away.

**It has not removed it.**

This is not a theoretical edge case. It is the lived experience of every independent operator who has attempted to grow beyond one site. The rates system was not designed with hospitality expansion in mind. The practical effect is that growth is taxed at the moment of commitment, not at the moment of profit. In practice, an operator feels this the moment they sign heads of terms on a second venue - before they have served a single customer, before the fit-out has started, before the first member of staff has been hired. The

three-year grace period from the Autumn Budget is welcome, but it is a deferral. The liability has not gone away - it has been pushed further down the road.

## The Scottish and Welsh positions

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39. **Scotland** - the Small Business Bonus Scheme operates across multiple properties based on combined rateable value. Less punitive for early growth.
40. **Wales** - relief on first property only; transitional rules differ.
41. **England** - the rules above apply in full. Reform here would require a deliberate policy decision.

## 5. SSP REFORM - THE APRIL 2026 COST THAT MOST OPERATORS HAVE NOT YET MODELLED

The Employment Rights Act 2025 introduces the most significant changes to Statutory Sick Pay in decades, taking effect from 6 April 2026. The reforms are designed to protect lower-paid workers, and they achieve that aim. The unintended consequence for coffee shops operating a high part-time or seasonal staffing model is a new and largely unbudgeted cost that falls asymmetrically on the sector.

### What changes from 6 April 2026

42. **Day-one entitlement** - the three-day waiting period is abolished. SSP is payable from the first qualifying day of absence. Previously, short absences of 1-3 days cost the employer nothing in SSP. From April, every absence triggers a payment obligation from day one.
43. **Lower Earnings Limit abolished** - employees must currently earn at least £125/week to qualify. From April, all employees qualify regardless of earnings - extending coverage to an estimated 1.3 million additional workers, a significant proportion of them in hospitality.
44. **New rate calculation** - SSP will be the lower of the flat rate (£123.25/week from April 2026) or 80% of the employee's average weekly earnings. Low-earning part-time workers receive a bespoke percentage-based amount, requiring individual calculation in payroll software.

### Why this hits coffee shops differently

	High part-time/seasonal staffing	Predominantly full-time staffing
<b>Typical staff profile</b>	Many earning £60-£90/week; historically below SSP threshold	Staff earning £350-£450/week; already SSP-eligible
<b>SSP eligibility pre-April 2026</b>	Partial - only those above £125/week Lower Earnings Limit	Universal - all staff already eligible
<b>SSP eligibility post-April 2026</b>	Universal - all staff now eligible	No change
<b>Rate calculation</b>	80% of weekly earnings (bespoke per employee)	Flat rate £123.25/week (unchanged)
<b>Admin impact</b>	HIGH - individual AWE calculation per worker; payroll software updates; policy rewrite	LOW - existing flat-rate system unchanged
<b>Previous SSP exposure</b>	Near zero	Already fully modelled and budgeted
<b>Post-reform exposure</b>	Significant new annual cost, previously £0	Broadly unchanged

The Fair Work Agency (FWA), created April 2026, has new enforcement powers over SSP. Employees who believe SSP has been incorrectly calculated or withheld can escalate directly to the FWA. For operators with large part-time workforces - the majority of independent coffee

shops - the risk of inadvertent non-compliance is significant and the deadline for preparation has already passed for many.

## What to do before 6 April 2026

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45. **Confirm with your payroll software provider** when the 80% AWE calculation will be available - as of early 2026 this was still in development with some providers.
46. **Rewrite your sickness policy** - remove all references to waiting days. SSP begins from day one.
47. **Audit your part-time staff list** and identify everyone now newly eligible who was previously below the Lower Earnings Limit.
48. **Brief your managers** - every absence, including a single day, now requires a record and potentially a payment calculation.

## 6. PENALTIES - THE COST OF GETTING IT WRONG

Every obligation in this document carries a penalty for non-compliance.

Most are automatic.

Many carry no warning.

New ones are introduced every year.

Most of the penalties and consequences become more aggressive and costly each year.

The table below lists the most common penalty exposures for a coffee shop operator, not as a scare tactic, but because **the penalty regime is itself a material cost of operating**, and one that falls disproportionately on small businesses without dedicated compliance staff.

*(Note: where a business faces a genuine short-term cashflow difficulty, HMRC does operate Time to Pay (TTP) arrangements - structured payment plans negotiated before a deadline is missed. These are not widely publicised but are available, and a good accountant will know when and how to apply for one.)*

Missed obligation	Penalty or consequence
Late VAT return or payment	2% surcharge from day 1, rising to 4% after 15 days and 10% after 30 days. Penalty points accumulate - repeat lateness leads to £200 fixed penalties per return.
Late PAYE / RTI submission	£100/month per 1–9 employees. Automatic. No warning. No discretion.
Minimum wage underpayment	200% penalty on arrears (halved if paid within 14 days), 6 years of arrears, public naming on GOV.UK.
Failure to auto-enrol	£400 fixed penalty, then £50–£10,000/day escalating fines depending on employer size.
Late self-assessment return	£100 automatic even if no tax is owed. £10/day after 3 months. 5% of tax due or £300 after 6 months.
Business rates arrears	Magistrates' Court liability order; bailiff instruction; full year's rates demanded immediately. Summons costs added.
Companies House - unverified director	Criminal offence. Cannot file any documents. Director cannot legally act. Risk of company strike-off.
SSP incorrectly withheld (from Apr 2026)	Fair Work Agency investigation; employee tribunal claim; arrears plus interest.
No PPL PRS music licence	Civil enforcement; backdated fees plus damages uplift. Small venues have faced five-figure bills.
Food hygiene failure	Improvement notice, emergency closure, criminal prosecution. Fines up to £20,000+. Public disclosure damages trade immediately.
Alcohol licence breach	Licence review, suspension, or revocation. Personal licence holder: up to £10,000 fine and/or 6 months imprisonment.
GDPR / ICO breach	Up to £17.5m or 4% of global turnover. £8,700 for failure to register with ICO.

## 7. THE ADMINISTRATIVE BURDEN

The taxes and penalties above are the financial costs. Alongside them sits a compliance burden that does not appear in any profit and loss account but is just as real: the time and professional cost of staying on top of an obligations register that changes every year.

### Professional fees that exist solely because of government obligations

49. **Accountant - £3,000-£8,000+/year.** Required for corporation tax, year-end accounts, VAT advisory, and HMRC correspondence. Any investigation or appeal adds significantly more.
50. **Bookkeeper - £5,500-£18,000/year.** Making Tax Digital requires software-based records for VAT. MTD for Income Tax arrives from April 2026 for those above £50,000 turnover.
51. **Payroll bureau - £2,000-£3,600/year.** RTI submissions, auto-enrolment, statutory pay calculations. From April 2026, SSP calculations become significantly more complex for part-time staff.
52. **HR consultant or employment solicitor.** The pace of employment law change makes ongoing professional support necessary. Retainers from £100-£300/month. Tribunal defence typically costs £8,000-£15,000 per claim, even when the employer wins.
53. **Health & Safety contractor - £1,000+/year.** Fire risk assessment, PAT testing, legionella assessment, COSHH. All legally mandated.
54. **Tips compliance (Employment (Allocation of Tips) Act 2023).** In force since October 2024. Record-keeping, written policy, payroll integration, and in some cases tronc administration. Often requires accountant or payroll bureau input to implement correctly. A new obligation with no offsetting relief.

### The owner's own time

For the owner-operator, compliance time is not free. It is taken from time that could be spent on the business. A conservative estimate of weekly compliance administration:

Task	Hours/week
Payroll preparation, review and exception handling	1-2
VAT reconciliation and bookkeeping review	2-4
Staff scheduling (NLW, break and hours compliance)	1-2
Supplier invoice processing and record-keeping	2-3
HMRC correspondence, portal, deadline management	1-2
Food safety records, temperature logs, HACCP documentation	2-3
<b>Total estimated weekly compliance time</b>	<b>9-16 hrs</b>

At a modest £30/hour opportunity cost, 9-16 hours of weekly compliance represents £14,000-£25,000 per year in productive time that cannot be spent running, growing or improving the business. This estimate applies to a single-site owner-operator doing the work themselves. For a growing group, the picture is different: at some point, the volume of compliance obligations requires a dedicated member of staff - a cost

that scales with regulation rather than with revenue, and which has no equivalent relief or offset in the tax system.

## The legislation changes every year

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In 2025/26 alone, a coffee shop owner needed to absorb and act on the following changes:

55. **April 2025:** Employer NI rate rose to 15%; threshold cut to £5,000. Payroll and budgets needed immediate revision.
56. **April 2025:** National Living Wage rose to £12.21/hour. Every contract and schedule reviewed.
57. **April 2025:** SDIL rates increased. Supplier pricing reviewed.
58. **November 2025:** Companies House mandatory identity verification for all directors. Confirmation statement process changed.
59. **February 2026:** Companies House annual fee rose from £34 to £50.
60. **April 2026:** SSP day-one entitlement; LEL abolished; new 80% rate calculation. Full policy and payroll overhaul required.
61. **April 2026:** National Living Wage rises again to £12.71/hour.
62. **April 2026:** MTD for Income Tax begins for sole traders above £50,000 turnover.
63. **April 2026:** Landfill tax rises to £130.75/tonne.

## 8. CONCLUSION AND WHAT YOU CAN DO

The twenty-plus obligations outlined in this report are not the result of any single decision. They have accumulated over time - each individually justifiable, collectively forming a system that is increasingly difficult for independent operators to sustain.

The fairness case and the economic case point in the same direction. The UK applies one of the highest VAT rates in Europe to a sector that plays a critical role in employment, local economies, and community life. Comparable economies have already adjusted course.

**The case for a reduction in VAT to 10% is clear.**

But it is not the full picture.

VAT reform would change the trajectory of the sector.

But it would not remove the underlying reality:

***This is a tight-margin, high-cost business that demands precision.***

And that is the part that has never been clearly explained.

There are operators in this environment who are still building sustainable, profitable businesses. Not because the system is easier for them - but because they understand it differently.

That understanding is not instinctive. It is learned. And in a market like this, it is no longer optional. It is the difference between surviving and closing.

The detailed financial modelling - showing exactly what the full tax burden looks like for a £600,000 coffee shop, in two scenarios - is contained in the accompanying Part Two of this report.

### Sign the petition

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The UK Government petition calling for a VAT reduction for the hospitality sector is open now. If you agree with the case made in this report, please sign it and share it with every operator you know.

Sign here: <https://www.change.org/p/lower-vat-to-10-for-the-hospitality-industry>

### Write to your MP

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The most direct action you can take alongside signing the petition is to send this report to your Member of Parliament with a short personal note. MPs respond to constituents. A letter from a local business owner, in your own words, referencing your own experience, carries more weight than any lobbying campaign. You do not need to be an economist or a policy expert. You just need to be honest about what it is actually like.

Find your MP at: [www.parliament.uk/get-involved/contact-an-mp-or-lord/contact-your-mp](http://www.parliament.uk/get-involved/contact-an-mp-or-lord/contact-your-mp)

Sample Letter here:

<https://thecafeexpert.com/wp-content/uploads/2026/03/Local-MP-Letter-Template.docx>

## About this report

This report was produced by John Richardson (@thecafeexpert) of The Independent Coffee Collective in conjunction with Peter Dore-Smith (Kaffeine) and Nick Cooper (Indy Coffee Guide).

It is also published under the Caffe Insights brand in conjunction with Caffe Culture. John has worked with café and coffee shop owners across the UK for over two decades, has authored three books on coffee shop profitability, and operated hospitality businesses directly employing nearly 1,000 people.

The European VAT rate chart is reproduced with thanks to UKHospitality.

The fiscal analysis of hospitality insolvency costs and the full economic case for VAT reform is developed in detail in Dan O'Regan's 'The 20% Sitting at Every Table, Part Two' (Notes on a Napkin, Substack, 13 March 2026). Readers who want the complete economic modelling are strongly encouraged to read it.

## About the Co-Founders

*The Independent Coffee Collective was founded by three people who have spent their careers inside the UK independent coffee sector.*

	<b>John Richardson</b> Founder, The Cafe Expert. Author of three books on running coffee shops, consultant, and operator with over two decades working with independent coffee shops and cafés across the UK.
	<b>Peter Dore-Smith</b> Founder, Kaffeine London. One of the UK's most respected independent coffee operators with two cafes and decades of experience.
	<b>Nick Cooper</b> Founder, Indy Coffee Guide. The definitive guide to independent coffee shops across the UK.

## Stay Informed - Join the Independent Coffee Collective

[www.independentcoffeecollective.com](http://www.independentcoffeecollective.com)

**The tax burden doesn't stand still. Neither should you.**

The Independent Coffee Collective exists to give independent coffee shop and café owners the data, tools and advocacy support they need to make their case - to customers, to landlords, and to government. Register at the link above to access:

64. **Free resources and updates** - rate changes, new legislation, and practical guidance delivered to your inbox as it happens, not six months later.
65. **The Part Two financial model** - the full worked breakdown of what a £600,000 coffee shop actually pays in tax and levies, in two scenarios, every line sourced.
66. **Further reports, resources and tools** - to help combat these costs.
67. **Join the community** - connect with other independent operators, share intelligence, and add your voice to the campaign for a fairer tax environment for UK coffee shops.

**Register free at [www.independentcoffeecollective.com](http://www.independentcoffeecollective.com)**

## Contributors

The Independent Coffee Collective is grateful to the following industry figures who contributed to this report:

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*All figures sourced from GOV.UK, HMRC, OBR, TfL, Insolvency Service, and official rate schedules current as at March 2026.  
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