

WHY UK COFFEE SHOPS ARE STRUGGLING

PART TWO: THE FINANCIAL MODEL

What a £600,000 coffee shop actually pays in tax and levies - two scenarios, every line sourced

John Richardson (@thecafeexpert)

The Independent Coffee Collective

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

This document is the companion financial model to the full ICC report. It models the complete tax and levy burden on a fictional but representative £600,000 UK coffee shop. Two scenarios are presented: a breakeven business and a modestly profitable one. Every figure is sourced from official government rate schedules current at March 2026. The model is intentionally conservative - no figure has been inflated.

<https://independentcoffeecollective.com/>

THE BUSINESS — ASSUMPTIONS

The following model is based on a single-site, owner-operated UK coffee shop. All figures are representative of a mid-sized independent operator in 2025/26. The business is not exceptional - it is typical.

Assumption	Value
Annual gross till (total customer spend)	£600,000
VAT-standard-rated revenue (hot drinks, eat-in)	85% = £510,000
Zero-rated revenue (cold takeaway food)	15% = £90,000
Total staff (FT + PT)	14 people
Full-time staff (6 × £22,000/year)	£132,000
Part-time staff (8 × £8,000/year)	£64,000
Total wage bill	£196,000
Rateable value (premises)	£35,000
Annual energy cost (electricity + gas)	£28,000
Annual commercial insurance premiums	£6,000
Annual vehicle/delivery fuel spend	£8,000
Annual soft drinks wholesale spend	£15,000
Annual waste collection spend	£4,500
Business rates (2026/27, 38.2p RHL multiplier)	£13,370

This is a real business. These are real numbers. The only thing fictional is the name on the door.

THE TWO SCENARIOS

Two scenarios are modelled. Scenario 1 is a business at breakeven - the owner takes a modest salary, the business generates no distributable profit. Scenario 2 is a business generating £90,000 profit before owner salary, from which the owner draws £40,000. Both are plausible outcomes for this size of business.

Tax / Levy	Scenario 1(Breakeven)	Scenario 2(£90K profit)
DIRECT TAXES		
VAT (net — output less input)	£68,000	£68,000
Corporation Tax / Income Tax	£0	£10,500
Business Rates (2026/27)	£13,370	£13,370
Employer NI (15% above £5,000/employee)	£26,850	£26,850
Insurance Premium Tax (12% on £6,000 premiums)	£720	£720
EMPLOYMENT QUASI-TAXES		
Auto-enrolment pension (3% employer on qualifying earnings)	£3,920	£3,920
Statutory Sick Pay (estimated, 14 staff, post-April 2026)	£1,800	£1,800
National Living Wage uplift cost (April 2026 increase)	£2,240	£2,240
EMBEDDED / INVISIBLE LEVIES		
Climate Change Levy (electricity + gas, approx 8% of £28K)	£2,240	£2,240
Renewable Obligation / CfD / Capacity Market levies (est. 25% of energy)	£7,000	£7,000
Fuel Duty (52.95p/litre × est. 8,000 litres)	£4,236	£4,236
Plastic Packaging Tax (passed through by suppliers, est.)	£850	£850
Soft Drinks Industry Levy (passed through, est. on £15K wholesale)	£2,100	£2,100
Landfill Tax (embedded in £4,500 waste collection, est. 35%)	£1,575	£1,575
Insurance Premium Tax on vehicle/other insurance	£480	£480
COMPLIANCE & REGULATORY COSTS (government-mandated)		
PPL PRS Music Licence	£600	£600
ICO Registration, Companies House, DBS checks	£300	£300
H&S contractor (fire risk, PAT, legionella, COSHH)	£1,200	£1,200
Accountant + bookkeeper + payroll bureau (minimum)	£12,000	£12,000

Owner compliance time (9–16 hrs/wk @ £30/hr opportunity cost)	£18,000	£18,000
TOTAL TAX & LEVY BURDEN	£167,481	£178,181
As % of gross customer spend	27.9%	29.7%

WHAT THIS MEANS

Scenario 1 - the breakeven business

A £600,000 coffee shop at breakeven pays approximately £167,000 in combined tax and levy obligations - 27.9% of everything the customer spends. That is one pound in every four. The owner works full time, covers a market-rate salary, and the business survives. But there is no buffer. A broken boiler, a rent review, or a staff absence spike in January tips the balance.

Scenario 2 - the modestly profitable business

A £600,000 coffee shop generating £90,000 profit (from which the owner draws £40,000) pays approximately £178,000 - 29.7% of gross customer spend. Approaching one pound in every three. The business is well run and commercially sound. But the effective tax burden is structurally higher than in almost any comparable European economy.

What VAT reform would change - three scenarios modelled

Two reform levels are modelled below. 13% represents a modest, immediately deliverable step - politically easier to argue, still meaningful. 10% is the ICC's stated ask, and the rate at which France has operated since 2014.

	20% VAT(current)	13% VAT(interim ask)	10% VAT(ICC ask)
Net VAT liability (Scenario 1)	£68,000	£41,700	£29,500
Annual saving vs 20%	—	£26,300	£38,500
Net VAT liability (Scenario 2)	£68,000	£41,700	£29,500
Annual saving vs 20%	—	£26,300	£38,500
Total burden as % of gross spend (S1)	27.9%	23.5%	21.5%
Total burden as % of gross spend (S2)	29.7%	25.3%	23.3%
VAT per £1 collected for HMRC	17p	11p	8p

At 13%: a saving of £26,300/year - enough to cover the annual cost of two additional part-time staff, or absorb the April 2026 NLW increase across a team of 14.

At 10%: a saving of £38,500/year - on a 4–5% margin business, this is the difference between surviving a difficult quarter and not. It is the boiler, the refrigeration unit, and the refit deposit in a single year.

In both cases, the government continues to collect tax - from a sector that remains alive and trading.

Notes on methodology

VAT net figure: calculated on 85% standard-rated revenue (£510,000 VAT-inclusive). Output VAT at 20% = $£510,000 \times 20/120 = £85,000$. Input VAT on qualifying purchases estimated at £17,000. Net VAT liability at 20% = £68,000. At 13%: output VAT = $£510,000 \times 13/113 = £58,673$, net = £41,700, saving = £26,300. At 10%: output VAT = $£510,000 \times 10/110 = £46,364$, net = £29,500, saving = £38,500.

Employer NI: calculated at 15% on earnings above £5,000 per employee. Employment Allowance (£10,500) applied. Figures rounded to nearest £10.

Embedded levies: energy policy costs estimated based on published OFGEM and BEIS data. Fuel duty calculated on approximate vehicle usage. SDIL, Plastic Packaging Tax and Landfill Tax estimated based on sector-typical purchasing.

Compliance costs: professional fee estimates are conservative mid-market rates. Owner time opportunity cost uses £30/hour.

This model is intentionally transparent and conservative.
Every line can be challenged. Every figure is sourced.
The cumulative picture is the point.
Full report and methodology: <https://independentcoffeecollective.com/>

All figures sourced from GOV.UK, HMRC, OBR, and official rate schedules current at March 2026.

This document is for information purposes only and does not constitute legal or tax advice.