



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

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Rounding of Cash Transactions - Guidelines for Retailers

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1. Introduction

Inflation has caused the purchasing power of 1 and 2-cent coins to diminish by over 20 per cent since their introduction. These coins are of little value individually, with essentially no goods or services priced at this level. Their primary function in the payments system is to make change for larger transactions and facilitate the exact settlement of debts.

The evidence suggests that 1 and 2-cent coins are not used actively by consumers and are expensive to mint. The large quantity of 1-cent coins issued annually, relative to existing stock, suggests that many of these coins are not actively circulated throughout the economy, but hoarded by consumers who do not like using them for transactional purposes, while others might simply be lost. Research conducted for the Central Bank in 2012 suggested a strong desire on the part of both consumers and business in Ireland to reduce/discontinue the use of 1 and 2-cent coins. Furthermore, the production costs of 1-cent coins exceed their face value (unit cost of 1.65c), with the production costs of 2c coins being only slightly lower than their face value (unit cost of 1.94c).

A number of EU countries, both within and outside of the Eurozone, have already introduced rounding. Among Eurozone countries, Belgium, the Netherlands and Finland operate a system of rounding. Of non-Eurozone Member States, Sweden, Denmark and Hungary already operate a system of rounding. A number of non-EU OECD countries also operate a system of rounding, including Norway, Australia, Canada and New Zealand.

In 2011, the Minister for Finance requested that the Central Bank examine ways to

improve Ireland's payment infrastructure. The Central Bank established a Steering Committee which prepared and submitted the National Payments Plan (NPP). Government subsequently approved the plan in April 2013. The aim of the NPP is to both promote greater use of efficient electronic payments such as debit cards and direct debits, to tackle payments aspects of financial exclusion, and to improve the efficiency of Ireland's cash cycle.

One of the recommendations of the NPP was to conduct a rounding trial in a mid-sized Irish town to test consumer and retailer reaction. The Wexford Rounding Trial was run from 16 September to 17 November 2013 with the aim of reducing the need for 1 and 2-cent coins, and showed strong support for rounding both from consumers and retailers. During the Trial retailers rounded change for cash transactions to the nearest 5 cent at the cash register, removing the need for 1 and 2-cent coins in change. When "don't knows" are excluded, 85% of consumers and 100% of retailers surveyed after the Trial believed rounding should be applied nationally. The full text of the report is attached at:

<http://www.centralbank.ie/paycurr/Documents/Wexford%20Rounding%20Trial.pdf>

Following on from the success of the Wexford Trial, in June 2015 the Government approved the national rollout of a voluntary rounding convention of amounts paid in cash nationally. This document is designed to help retailers plan for the introduction of rounding, and to answer questions on it. It is only the first element of a national consumer and retailer education programme which the Central Bank is organising in advance of the rollout

date of **28th October 2015**.

This document explains how rounding works, the implications for the calculation of VAT, what steps will be taken to communicate to retailers, consumers and others in advance of the rollout date, and to provide a 'Frequently Asked Questions' section. It is expected that it will be updated in advance of the rollout to deal with any specific issues raised by retailers.

2. How rounding works

Where a total bill is being paid in cash and the number of cent to be paid does not end in zero or five - so requiring either the customer to use 1 and 2-cent coins in payment or the retailer to use such coins in giving change - the amount of change to be paid will be rounded to the nearest five or ten cent:

- 1 and 2 would be rounded down to zero;
- 3 and 4 would be rounded up to 5;
- 6 and 7 would be rounded down to 5;
and
- 8 and 9 would be rounded up to 10.

For rounding to happen, both the retailer and the customer must accept it; both will have the right to charge, tender an amount for, and receive change for, the exact amount of the bill.

The application of rounding will have the least impact when a bill coming to a large total is being paid, and will have the most impact when a total bill consisting of a single item of a low price is being paid for (e.g. a box of matches). However the decision whether or not to apply rounding will be voluntary for every transaction.

It is important to note that rounding only

takes place on the total bill, not on individual prices. As such, prices do not need to be changed in advance, and existing price points (for example such as with items priced at 99c) will remain.

Retailers should indicate participation in rounding through appropriate in-store signage. This could include, for example, a notice on entrance-doors or at the till. The Central Bank will be providing stickers, posters etc. for in-store display so that retailers can indicate that they are applying rounding. This will be made available to any retailer, regardless of size, though it is expected to be mostly used by small/medium sized stores. It is expected that larger stores and chain-stores may prefer to develop their own signage, which could incorporate the logos and imagery developed by the Central Bank. This imagery will be made available for download by the Central Bank in advance of the rollout date. If larger stores want significant quantities of physical material they should notify the Central Bank in advance of 31 August 2015.

Retailers who adopt rounding can apply it automatically once notice is given in the store through (for example) a sticker on the window or at the point of sale. Where the consumer does not want to round, they will simply ask for the exact change, and the retailer should then tender the exact change. If a retailer wishes to ask customers if they want to apply rounding or not they are free to do so.

Retailers should always make sure to retain a sufficient supply of 1 and 2-cent coins, even if they are adopting rounding as the consumer will always have the right to exact change. If a retailer doesn't have sufficient coins available then he will have

to round the cost down and take an unnecessary loss on that transaction.

Rounding will not apply to amounts being paid electronically, such as by debit, credit or store card, or to amounts being lodged or withdrawn in cash at banks and post offices, and will only apply at the point of sale for the purchase of a good or a service. Rounding can be applied in financial institutions such as banks if the transaction involves a purchase, for example if someone is paying an electricity bill in cash at the counter. 1 and 2-cent coins will continue to be produced by the Central Bank in line with demand, though demand is expected to fall significantly.

3. Communications plan

The Central Bank will co-ordinate a national education campaign aimed at ensuring that both retailers and consumers are made fully aware of rounding in advance of the launch date of 28th October 2015.

It is envisaged that the campaign will have three major elements: retailer education; consumer education; and engagement with cash cycle participants.

Retailer education

Retailer education will be run from mid-September, and will aim to ensure that retailers:

- Understand rounding and feel positive about it;
- Have sufficient information to train their staff;
- Have access to stickers, posters etc. for in-store display highlighting that they are applying rounding;

A plan is currently being devised to ensure that retailers have access to stickers, posters etc. for in-store display highlighting that they are applying rounding. While the aim will be to get packs delivered directly to as many retailers as possible in the first half of October, the designs will also be able to be downloaded and printed, and copies will be made available in every Chamber of Commerce and Local Enterprise Office throughout the country.

Consumer education

A consumer education campaign will run in the days immediately leading up to, and after, the national rollout date and will include the need to ensure that consumers:

- Know that rounding is happening.
- They understand how rounding works.
- They are confident in using it.
- Confident it is for the good of consumers and works well elsewhere.
- They would understand how to opt out if they did not wish to participate.

This will take the form of a radio, press and digital advertising campaign. There will be an official 'launch' of rounding around a week before the rollout date.

Cash Cycle Participants

Engagement with cash cycle participants will be on-going throughout the next six months. Regular interactions will be maintained with, inter alia: banks, An Post, Credit Unions, cash-in-transit companies, till operators, and operators of coin return machines.

4. Application of VAT

The amount of VAT (Value Added Tax) paid is unaffected by rounding¹. VAT is calculated on the amount charged for taxable supplies. Rounding should take place after the VAT is calculated on a bill, and only when your customer is paying the total amount of an invoice in cash or paying the balance of an invoice in cash.

The choice of payment option (e.g. card versus cash), or the choice of whether to round or not, does not affect the rate of VAT paid as rounding only occurs after the tax is added to the sub-total.

For refunds, the VAT is calculated on the amount refunded for the items returned. Where you issue a cash refund, the rounding would take place on the total refund amount after you have added the VAT. Again, the application of rounding does not affect the calculation of the VAT.

5. Frequently Asked Questions

The following are some typical questions faced from retailers.

Q. Do I have to participate in rounding?

A. No. Participation in rounding is voluntary for both retailers and consumers.

¹ Section 37 of the VAT Consolidation Act 2010 (that conforms to Article 73 of the VAT Directive that applies in all EU Member States) provides that that amount on which VAT is chargeable is the total consideration which the person supplying the goods or services becomes entitled to receive in respect of the supply of those goods or services.

Q. How will rounding work?

A. The rounding rules are simple and fair for all. The change in cash transactions is rounded to the nearest 5 cent at the till to remove the need for 1 and 2-cent coins. The price of individual goods or services will remain unchanged as only the total bill will be rounded. Non-cash transactions are not affected. Some examples:

- *Change of €10.21 or €10.22 will be rounded down to €10.20*
- *Change of €10.23 or €10.24 will be rounded up to €10.25*
- *Change of €10.26 or €10.27 will be rounded down to €10.25*
- *Change of €10.28 or €10.29 will be rounded up to €10.30*

Q. Do I round card transactions too?

No, rounding should only be applied to cash transactions. Debit, credit and store card transactions are unaffected by rounding.

Q. What support will I get in applying rounding?

The Central Bank will engage in a significant public information campaign to make consumers aware of rounding. It will make in-store signage available to retailers so that they can indicate their participation in rounding.

Q. Will this mean that all prices will be rounded to price points of 5 or 10 cent e.g. 99c items rounded to €1?

A. No, the rounding rule only applies to the total bill. The price of individual goods or

services will remain unchanged.

Q. Will retailers lose out by providing a rounded change amount?

No. The rounding rules are simple and fair for all. On balance, neither consumer nor retailer loses or gains as rounding can result in your bill being rounded up or down.

Q. What do I do if the customer complains about their total being rounded up at the end?

A. Participation in rounding is voluntary for consumer and you should give them exact change if requested.

Q. Will there be any implication for my VAT return?

A. VAT will continue to be charged as usual on the unrounded amount. See section 4.

Q. Do I have to ask if the customer wants to round?

No. If a consumer does not want to participate, they will actively tell you.

Q. If I chose to take part in rounding can I later decide to pull out?

A. Yes, participation in rounding is voluntary at all times.

Q. If I chose initially not to take part in

rounding can I take part later?

A. Yes. You can apply rounding at any time.

Q. Do I have to change how my till operates?

A. That is up to each retailer to decide. Large retailers are expected to make software updates to accommodate rounding.

Q. What happens if a consumer wants her exact change but I don't have any 1 or 2-cent coins in stock?

A. The consumer will always have the right to exact change, so retailers should make sure they retain a sufficient stock of 1 and 2-cent coins. If a retailer doesn't have any available then he will have to round the cost down and take an unnecessary loss of up to 4-cent on that transaction.

Q. Will rounding cause inflation?

A. Evidence from countries which have introduced rounding measures shows that the rounding of the final bill total, rather than individual prices, curtails any inflationary effects. Rounding will involve rounding up and down.

Q. Will charities lose out because of rounding?

A. No. Many charities have indicated that they expect the national rollout of rounding to increase donations as people bring back coins that they have 'hoarded' at home.

Q. Should I apply rounding on the total bill or on the change given?

You should apply Rounding to the change. In the large majority of cases this will not make a difference anyway, as both methods will result in the same amount of change. Retailers are free to decide themselves how they are going to apply rounding in practice, though rounding change is the easiest approach. Whichever approach a retailer follows, it should be done consistently for all transactions.

Q. Do participating retailers have to apply rounding at all points of sale??

No. Retailers can choose to apply Rounding in the way that best suits their

needs and the needs of their customers.

For example, a store could roll-out Rounding incrementally to reduce cost and disruption, which might be particularly relevant for stores with more than one POS channel (e.g. self-serve machines and manned tills). They could also choose to apply Rounding in a compulsory manner at some part of their store, as long as the customer has some option in that store to get their exact change if they want it. For example, they could apply compulsory rounding at self-serve machines and to direct customers who want exact change to manned tills. In such cases the options should be clearly communicated to the customer with appropriate signage.

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