SAMPLE · FICTIONAL OPERATOR · ILLUSTRATIVE FIGURES

Prize-draw VAT repricing pack

What HMRC's view of 20% VAT on paid entries does to one draw, four ways to get the margin back, and what a bill for past periods would do to cash. The commercial side that sits next to the VAT adviser's work.

- **One draw, sold out:** £1,174 before VAT, **–£5,127** once VAT is counted. Break-even moves from 18,379 to 22,282 paid entries: 117% of the paid places on sale.
- **Four ways back:** price £2.40, prize £23,700, an entry cap of 24,246 (23,034 paid), or £2.29 with a £28,000 prize. Each restores at least roughly the old margin (£1,173–£1,537), if the draw still sells out.
- **The catch:** at £2.40 and 90% sold, the same draw loses £2,357. The price fix only works if demand holds.
- **Past periods:** using an example bill of £75,616, an operator running two repriced £2.40 draws a month with £33,000 cash runs out of cash in month 9 if the bill is paid over 12 months, and stays positive over 24 or 36 months. At 90% sell-through, cash runs out by month 3–5 for any of these three terms.

How this pack is used

The client's VAT adviser decides the VAT treatment and supplies the VAT figures. This pack takes those figures as given and works out the commercial response: prices, prize levels, entry caps and cash timing. It is finance modelling, not tax or legal advice. HMRC's view is being challenged at the First-tier Tribunal; published adviser commentary expects a decision in spring 2027.

The draw is the worked example published at thelotterycfo.com/sold-out-prize-draw-loss. A real pack uses the operator's own draws, fees and costs.

Ivan Soloviov, The Lottery CFO · 18 years in lottery finance, including as CFO of a European national lottery operator · ivan@thelotterycfo.com

1. The draw before and after VAT

A £30,000 car, tickets at £1.99, capped at 19,999 entries with 5% free postal entries, so 18,999 can be paid for. Card fees at 1.5% + 20p per payment, 3 entries per payment. Marketing £4,000, website and draw platform £800. VAT is one sixth of paid sales (prices treated as VAT-inclusive).

Line, sold out	Before VAT	With 20% VAT
Ticket sales (18,999 paid entries)	£37,808	£37,808
VAT (one sixth of paid sales)	£0	−£6,301
Prize	−£30,000	−£30,000
Card fees	−£1,834	−£1,834
Marketing and platform	−£4,800	−£4,800
Result	**£1,174**	**−£5,127**
Paid entries to break even	18,379 (97%)	**22,282 (117%)**

Reading it: the VAT (£6,301) is more than the whole margin before VAT. With VAT counted, the draw cannot make money even if every paid place sells.

Assumptions: VAT cannot be reclaimed on the prize; card fee rate is Stripe's standard UK rate used as a benchmark; no other overheads. The one-sixth figure holds only if entry prices include VAT.

2. Four ways to get the margin back

Each option is set to recover at least roughly the pre-VAT result of £1,174 per draw (option 4 overshoots to £1,537), with VAT counted, if the draw sells out.

Option	Price	Prize	Entry cap	Paid places	Result, sold out	Break-even (paid)	What it depends on
Today (VAT counted)	£1.99	£30,000	19,999	18,999	−£5,127	22,282 (117%)	—
1. Raise the price	£2.40	£30,000	19,999	18,999	£1,247	18,342 (97%)	Same number of people still buying at a higher price
2. Smaller prize	£1.99	£23,700	19,999	18,999	£1,173	18,248 (96%)	The draw still selling out with a cheaper prize
3. More entries	£1.99	£30,000	24,246	23,034	£1,175	22,282 (97%)	Selling 21% more paid entries at the same price
4. Mix	£2.29	£28,000	19,999	18,999	£1,537	18,149 (96%)	A smaller price rise and a smaller prize cut

Reading it: on paper all four work. In practice each one is a bet on demand: buyers accepting a higher price, a smaller prize still selling, or more entries being sold. That is the question to test before choosing, for example on one draw first.

The same £2.40 draw if it doesn't sell out

Sell-through	Paid entries	Result
100%	18,999	£1,247
90%	17,099	**−£2,357**

The prize cost does not fall with sales (the DCMS code expects the advertised prize, or a cash alternative, to be awarded with no downgrade or cancellation for low sales), so every unsold place comes straight off the result.

3. A bill for past periods: what it does to cash

Example only: the bill is set at £75,616, the VAT on 12 past draws like this one (12 × £6,301). Excludes any interest or penalties. In a real pack the figure, and any payment terms, come from the client's VAT adviser. Going forward the operator runs two £2.40 draws a month (option 1) and starts with £33,000 of cash (assumption).

Draws	Bill paid over	Monthly payment	Net cash per month	Cash after 12 months	Cash below zero
Sells out	12 months	£6,301	−£3,806	−£12,678	month 9
Sells out	24 months	£3,151	−£656	£25,130	not within 12 months
Sells out	36 months	£2,100	£394	£37,733	not within 12 months
Sells 90%	12 months	£6,301	−£11,016	−£99,196	month 3
Sells 90%	24 months	£3,151	−£7,866	−£61,388	month 5
Sells 90%	36 months	£2,100	−£6,815	−£48,785	month 5

Reading it: if the draws sell out, the term of the payments decides whether cash stays positive: 12 months fails, 24 or 36 months holds. If sell-through slips to 90%, none of these terms keeps cash positive. The repricing has to work for any payment term to hold.

What a real pack contains

- The operator's own draws modelled before and after VAT, using the VAT figures the adviser supplies.
- Repricing, prize and cap options with break-even and sell-through tests.
- A 12-month cash plan for the payment scenarios the adviser gives, and the sell-through each one needs.
- Written, with the spreadsheet model. Fixed price agreed before work starts.

Finance modelling only. Not tax, legal or investment advice; no contact with HMRC on anyone's behalf. All figures in this sample are illustrative and describe a fictional operator. Ivan Soloviov, The Lottery CFO · ivan@thelotterycfo.com · thelotterycfo.com