



HM Revenue
& Customs

The HMRC Alcohol Strategy

Modernising alcohol taxes to tackle fraud and reduce burdens on alcohol businesses



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Damian Hinds
Exchequer Secretary to the Treasury

Foreword

Alcohol consumption generates £10.5 billion a year in excise duty alone to fund vital public services. Duty fraud deprives the public of those essential funds and undermines efforts to encourage responsible drinking. It also allows criminals to undercut legitimate businesses. To support the legitimate alcohol industry we must balance minimising the administrative burdens of paying alcohol duty with continuing to bear down on duty fraud through regulation and enforcement.

Alcohol is a dynamic sector diversifying in response to changes in consumer preferences, illustrated by the recent rapid growth in craft production. The industry contributes significantly to UK exports; the UK is the fourth biggest exporter of beer in the European Union (EU) and Scotch whisky exports were worth £3.9 billion in 2014. In this document, Her Majesty's Revenue and Customs (HMRC) sets out its ambition over the course of this Parliament to transform how businesses pay alcohol duty, simplifying and reforming procedures to design-out error and reduce burdens on compliant businesses, leading ultimately to digitally enabled services that work with the grain of businesses in this diverse sector.

Since 2005, when HMRC introduced its first strategy to tackle the illicit trade in spirits, the progress in the fight against all forms of alcohol fraud has been considerable, but the illicit alcohol market still costs the taxpayer approximately £1.2 billion a year. The criminality involved, including the use of the proceeds to fund other crimes, has a devastating effect on people and businesses across the UK, and the fight against it must continue. Working together with honest business people is crucial to driving out fraud and securing the competitiveness of UK alcohol businesses at home and abroad, the integrity and security of our communities, and safeguarding the long-term success of a sector that contributes so much to UK prosperity and growth.

A handwritten signature in black ink that reads "Damian Hinds". The signature is written in a cursive, slightly stylized font.

Damian Hinds
Exchequer Secretary to the Treasury

Executive summary

HMRC collected £10.5 billion in alcohol duty last year, 2% of total UK tax receipts.

Collecting alcohol duty

Duty is paid on alcoholic drinks when they are released onto the UK market for consumption: for instance, by a producer or a warehouse keeper receiving alcohol brought into the UK under EU-wide duty suspension arrangements. Excise duty costs in the region of 0.4p for every £1 collected in revenue, making it one of the most efficient taxes in the UK to administer.

The rules for alcohol taxes have developed over a number of years and incorporate UK and EU law. Some are quite complex, which can make it difficult for businesses to enter the sector and for existing businesses to grow and diversify. It can also make it hard for HMRC to manage compliance.

The government is committed to reducing burdens on legitimate business, and HMRC announced its plans in December 2015 for [Making Tax Digital](#) by 2020. Through the newly established Great British Food Unit, the government is also committed to working with industry to boost UK food and drink.

The alcohol tax gap

Alcoholic drinks sold without payment of duty are illegal, and an estimated 8% of alcohol tax revenue, equivalent to £1.2 billion, goes uncollected each year as a result of fraud and error.

The biggest problem is 'inward diversion' fraud where organised criminals position large commercial consignments of genuine brands of alcoholic drinks on the near-continent which they then bring into the UK untaxed. Other frauds such as illicit production, under-declaration and non-payment of liabilities, exist but currently have less of an impact than diversion. Criminals infiltrate alcohol supply chains at multiple stages, and without safeguards in place, legitimate businesses can easily become implicated in fraud.

A new strategy

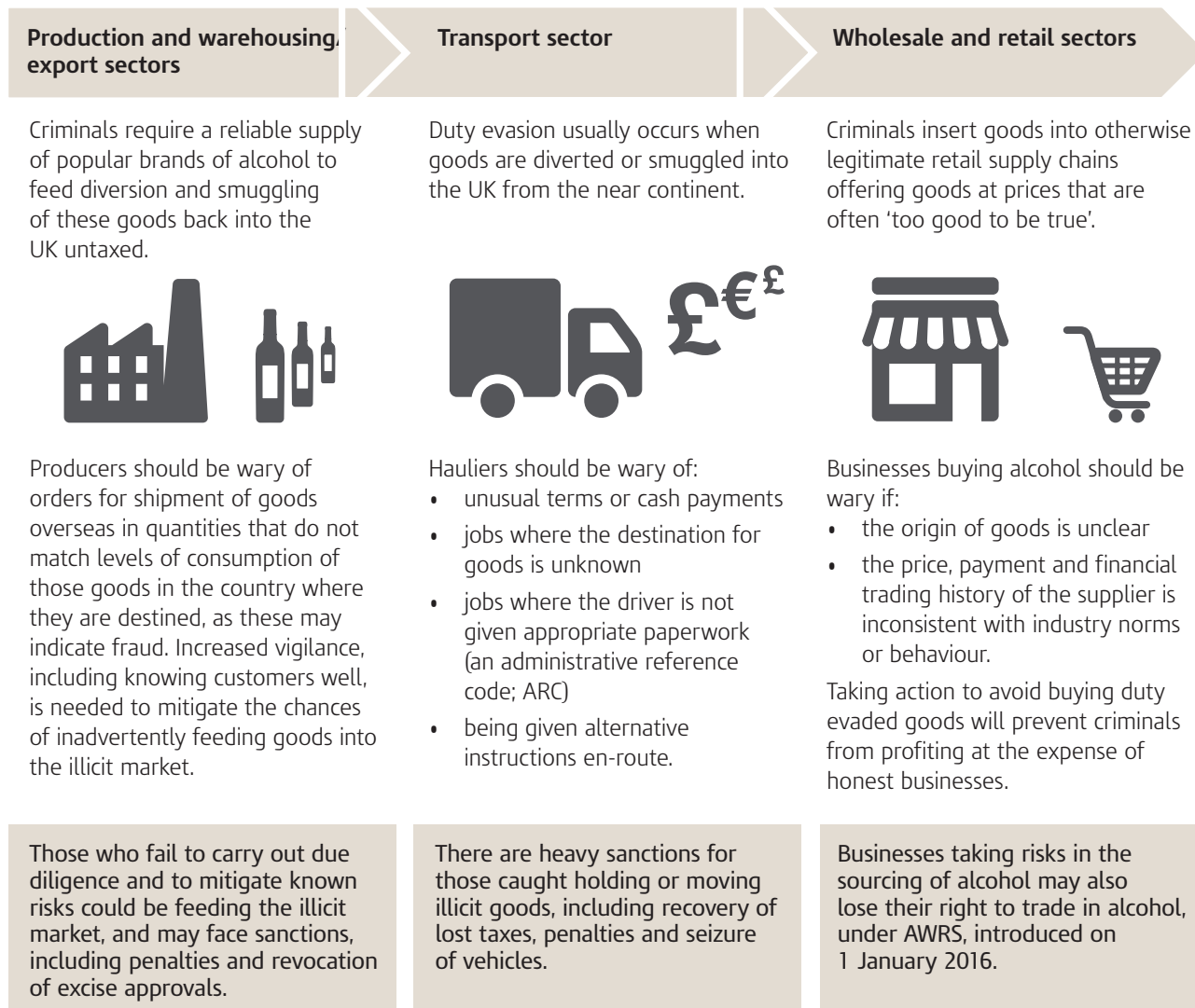
Our current alcohol strategy dates back to 2010, and the last substantial initiative derived from that, the Alcohol Wholesaler Registration Scheme (AWRS), launched on 1 January 2016. The strategy has been successful, increasing the revenue we protect to over £1 billion a year. Strong links have been forged with other enforcement agencies at home and abroad to address fraud, and legitimate businesses and trade bodies now also play a key part in addressing this shared problem.

Our 2010 strategy focused solely on tackling fraud. The law and processes for alcohol need reform so that we can improve services for customers, and to make it easier for HMRC to tackle fraud and error. It is now time to set a clear direction for the coming years.

Our aims for alcohol, working with other enforcement agencies and the alcohol industry, are to:

- **promote good compliance** – making it easier for businesses to pay the right duties
- **prevent tax losses** – making it harder to make mistakes or to deliberately cheat, including addressing regime vulnerabilities, and exploring technology solutions to prevent fraud
- **respond to those who cheat** – increasing the impact of enforcement.

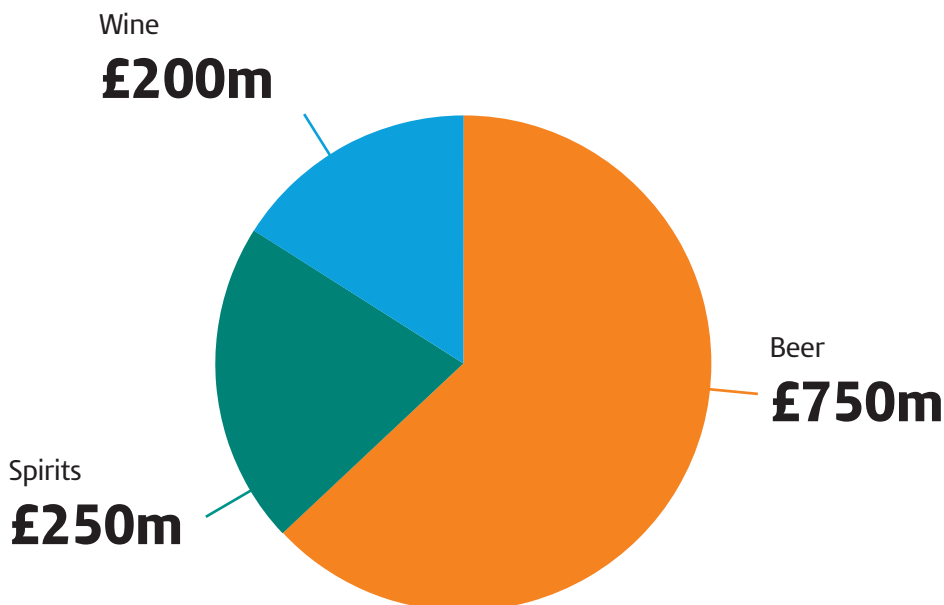
Fraud risks in alcohol supply chains



A progress update

Our 2005 anti-fraud strategy successfully reduced spirits fraud, and since 2010 targeted enforcement has protected revenue of over £3.6 billion. We have digitised warehousing declarations and alcohol movement records, and introduced anti-fraud measures such as due diligence and AWRS to tackle a growing criminal threat.

By working with Border Force, other enforcement agencies and the spirits industry, we have reduced the spirits illicit market from a height of 16% in 2000-01 to 5% in 2013-14. However, the threat from organised crime has evolved over recent years, and now cuts across all alcoholic drinks categories.



We refreshed our anti-fraud strategy in 2010, including measures to:

- work with businesses to secure legitimate supply chains
- tighten the regulatory framework to prevent and reduce opportunities for fraud
- strengthen our operational response to alcohol fraud.

Since then, we have seized 50 million litres of illicit alcohol with a duty value of £106 million and levied penalties of over £84 million, and losses protected by our enforcement have increased each year, exceeding £1 billion last year.

We replaced a paper-based system for alcohol warehousing declarations with a system known as ATWD, reducing burdens on businesses, and in 2011, the Excise Movement and Control System (EMCS) was launched. This has made it easier for businesses to move alcoholic drinks within the single market, and for HMRC to identify fraud risks.

Alcohol fraud remains one of the largest tax frauds the UK faces, and we have continued to evolve our response. Additional funding of £17.6 million was provided by government in 2010, increasing our capability to investigate fraudulent businesses using our full range of civil powers. Terms for excise duty repayments (drawback) were also tightened, cutting out fraud and reducing claims by over £40 million a year. In 2013, we strengthened sanctions for hauliers, destroying more lorries carrying illicit goods, prosecuting, and revoking operator licences through a new agreement with Driver and Vehicle Standards Agency (DVSA) and the Traffic Commissioners.

In January 2014, HMRC established the Joint Alcohol Anti-fraud Taskforce (JAAT) to increase collaboration with the alcohol industry, and we have also strengthened our links with other enforcement agencies in the UK and internationally. In late 2014, we introduced new due diligence rules requiring businesses to take reasonable steps to avoid fraud, and to secure wholesale and retail supply chains from fraud, AWRS was introduced on 1 January 2016. The fraud continues to mutate in response to our tactics, and HMRC secured an additional £47 million funding in Summer Budget 2015 to further expand its enforcement and impact.

Our performance since 2010

£50.6 billion

Alcohol duty collected from April 2010 to March 2015

£3.6 billion

Revenue protected from 2010 to March 2015

50 million litres

Non UK-duty paid alcohol seized by HMRC and Border Force

£106 million

Revenue value of seized alcohol

975

Number of penalties raised for wrong doing

£84 million

Value of penalties raised for wrong doing

71

Number of people convicted for alcohol offences

£40 million

Reduction in drawback claims a year since repayment rules tightened

HMRC's new alcohol strategy

Our ambition

Our aim is to maximise alcohol revenue by:

- **promoting good compliance** – making it easier for businesses to pay the right duties
- **preventing tax losses** – making it harder to make mistakes or to deliberately cheat
- **responding to those who cheat** – increasing the impact of enforcement.

Our strategy will level the playing field for legitimate businesses who suffer the damaging effects of alcohol fraud, and support wider government objectives to reduce alcohol related harms, and promote the growth of legitimate UK exports.

Promoting good compliance – transforming the alcohol regimes

We will transform how businesses transact with HMRC across the alcohol taxes by:

- **simplifying** tax across disparate alcohol regimes
- **digitising** transactions in line with HMRC's digital ambition for 2020
- **streamlining** our processes to support business growth – for instance, a quicker approval service for new and expanding businesses.

There are around 8,000 businesses who transact with HMRC on alcohol taxes, paying duties of over £10 billion every year. Currently, tax rules vary for different drinks categories (for example beer, wines, and spirits). A growing number of businesses trade in more than one category and some are also part of the excise warehousing or alcohol wholesaler registration schemes. We will work with the industry to improve the alignment of these taxes and schemes, reducing complexity and duplication. Our aim is for customers to be able to use a common set of information and processes to register, account for and pay the alcohol duty they owe, reducing burdens on business and costs for HMRC.

Simplifying alcohol taxes will pave the way for new digital ways to pay alcohol tax, in line with the HMRC ambition for 2020, replacing paper with faster, easier services which support those trading in alcohol to get things right. This will not only be better for customers but will also enable HMRC to optimise the use of our growing analytical capability to better target our resources on those determined to continue to break the rules.



HMRC will consult on reform of procedures for the collection of alcohol duty in summer 2016

Preventing losses – making it harder to make mistakes or to deliberately cheat

We will continue the work started under our 2010 strategy to close the gap between duty due and duty collected by:

- **sharing more of what we know** with legitimate business to help drive out fraud
- **targeting communications and education** to sectors impacted by particular risks
- **supporting businesses to comply** with their obligations through better guidance.

To address vulnerabilities in the alcohol regulatory framework, we will also:

- seek changes at EU level to prevent systematic abuse of EMCS, for instance, the re-use of paperwork to provide documentary cover for smuggled goods
- consider options to restrict who can hold and move duty suspended goods
- explore new technology to better track the distribution of alcohol and simplify the payment of duty.

Alcohol due diligence

The new due diligence condition for alcohol traders has brought a change in the way some businesses supply alcohol, making it more difficult for criminals to operate. In spring 2016 we will launch additional training for our officers to make full use of their powers, and support honest businesses to comply.



HMRC will consult in 2016 to seek the views of industry on the feasibility and impacts of specific anti-fraud measures

Responding to those who cheat – increasing the impact of enforcement

Alcohol fraud attracts organised criminals because of the large profits they can make. We will build on our successes since the launch of our 2005 and 2010 strategies, including targeting activity to reduce the profits that can be made from the fraud, undermining the economics of criminal activity.

We will:

- continue to work with legitimate businesses to identify how criminals gain access to alcohol
- build a richer intelligence picture of the criminals targeting the UK alcohol regime
- invest in the skills and capability of our people.

This will enable us to:

- better target criminal gangs
- focus on the highest risk individuals and businesses facilitating fraud
- track and manage displacement of fraud
- reduce the demand for illicit goods
- where we need to:
 - strengthen regulation and sanctions
 - tighten control over the supply of goods for fraud.



In 2015 the government invested £47 million in additional resource to introduce an alcohol control room and taskforce to allow us to strengthen our ability to intercept illicit alcohol

New for 2016

Tackling alcohol fraud at source

We will build on our work with producers to prevent criminals from accessing their brands of alcohol, improving our analysis of seizures and interceptions of alcohol so that we can provide businesses with more reliable evidence of fraud risks. We are also using EMCS data to build a richer picture of how alcohol is being moved within the single market. This more forensic analysis of the problem will enable HMRC to work with, and where necessary challenge and discredit, businesses in the UK and overseas, shipping goods which are ultimately feeding fraud.

Tackling smuggling and diversion of alcohol

There are an estimated 1,000,000 movements of alcohol each year between the UK and other EU Member States. The UK ports of entry provide a 'pinch-point' for controlling the flow of alcohol illicitly into the UK, and HMRC with Border Force have plans to significantly increase the volumes of risk-based interceptions and challenges, supported by recent government investment in a new alcohol control room and taskforce.

We will be piloting innovative ways to target fraud, and tools to increase the efficiency of activity. We will also strengthen our approach where inspection of EMCS records or other accompanying commercial documents raise concerns regarding the legitimacy of alcohol movements.














Reducing demand for illicit alcohol

AWRS, introduced on 1 January 2016, will reduce the flow of illicit alcohol into the wholesale sector. From April 2017, it will be an offence for a retailer to buy alcohol from an unapproved source. We will run taskforces, including exploring new ways of working with local authorities Trading Standards, licensing officers, police and others to tackle illicit trading evident at retail level. Also, we will continue to assess emerging threats from internet and distance sales.

Penalising fraud

HMRC, Border Force and other agencies have an extensive range of sanctions available to penalise those involved in the fraud. Our immediate priority is to ensure we use these effectively to maximise their impact.

Current sanctions include:

-  Seizure of goods.
-  Seizure of vehicles and vessels.
-  Seizure of cash as the proceeds of crime.
-  Criminal prosecution with a custodial sentence of up to seven years.
-  Confiscation of assets as part of the proceeds of crime.
-  Assessment for the loss of duty.
-  Financial wrongdoing penalties of up to 100 per cent of the duty due.
-  Civil action, including winding up orders and bankruptcy.
-  Fines of up to £5,000 for selling illicit spirits not bearing the UK duty stamp.
-  Revocations of excise approvals.
-  Removal of alcohol retail licence.
-  Withdrawal of haulier's operators licence.
-  Naming and shaming.

HMRC will be consulting in the spring on proposals for new sanctions to further punish and deter participation in duty fraud across the alcohol, tobacco and fuel regimes.

Working with business to deliver our ambition

Crucial to the success of our strategy is continuing to work in partnership across government and with legitimate businesses trading in alcohol to help identify and tackle fraud. The illicit market stifles growth of legitimate trade and efforts to encourage responsible consumption so tackling it has wider impacts for the UK beyond deficit reduction.

The Joint Alcohol and Tobacco Consultative Group (JATCG) brings together representatives from across the alcohol industry, to work in partnership to improve the experience of businesses when they access our services. Through this group, we will continue to find new ways to support people to set up, grow and diversify their alcohol businesses.

The Joint Alcohol Anti-fraud Taskforce (JAAT) is focused on collaboration to tackle fraud, involving experts from across the alcohol industry and other UK enforcement agencies. This forum has already enabled us to improve our understanding of fraud issues at home and abroad and has equipped us to find better ways to prevent fraud and protect honest businesses. We will continue to work together to:

- refine our estimates of alcohol tax gaps
- raise awareness of fraud, and the action we and others can take to prevent it
- share information and intelligence under a new Memorandum of Understanding
- strengthen the 'track and trace' processes between HMRC and alcohol producers
- raise enforcement standards across the country
- take action to prevent fraud, and increase the impact of enforcement.



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