



HM Treasury



HM Revenue  
& Customs

# Alcohol duty review: Call for evidence

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September 2020



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# Foreword

For many of us, the most interaction we have with alcohol duty is hearing that the price of a drink will be a few pence different after each of the Chancellor's Budgets. But dig beneath the headlines and there lurks a complex – and arguably outdated – system of taxation.

Alcohol duty has a long and fascinating history, and its development is inseparable from the growth of much-loved industries, including the rich whisky of Speyside, the clear ales of Burton or the crisp ciders of Hereford and Somerset.

But times are changing, and old assumptions no longer hold. The alcoholic beverage industry is innovative and competitive, and traditional boundaries between products are breaking down. A brewer might operate a side business in making cider or spirits. Larger companies may hold a mixed portfolio of many different products. These days a consumer might wish to have a cocktail spritz in the pub beer garden as much as a cask ale, or a gin and tonic with their evening meal instead of a glass of wine.

Harmonising alcohol duty across the EU was a noble goal, but finding consensus in this area – with widely differing attitudes and industries across member states – has always been challenging, and the inevitable compromises were somewhat unsatisfactory. Now that the UK has left the EU and is free to set its own law in this area, I believe that we can shape our duty regime in the best way to suit our national priorities without the undue rigidity and constraints imposed by the EU.

I believe there is a powerful opportunity then to look again at these issues in a new light and consider whether there are better ways to approach this important area of taxation. In particular, we can look to the example of other countries beyond the EU who have made innovative reforms in this area over recent years.

Reform will need careful reflection. There are many considerations in play – for example, supporting public health, protecting tax revenues and providing a fair deal for all parts of industry – and it will not be easy to balance these. We will therefore proceed thoughtfully, listening carefully to the views of respondents.

This review is also taking place among extraordinary circumstances caused by the COVID-19 pandemic. While this review is about considering changes for the long-term, rather than supporting businesses through the short-run disruption caused by necessary public health measures, I appreciate this is a uniquely challenging and uncertain period.

I am aware that the coming months may see significant – and possibly permanent – shifts in consumer spending, habits and producer activity. I will keep this in mind as

I take forward the review. This call for evidence is only the first phase, and there will be future opportunities for respondents and stakeholders to contribute to it.

However, I am convinced that we can and must improve on what we have at present. We should now seize the opportunity that leaving the EU presents us with when it comes to the alcohol duty regime. I look forward to hearing from respondents on how we can begin to make a fresh start.

A handwritten signature in black ink that reads "Kemi Badenoch". The signature is written in a cursive, flowing style.

**Kemi Badenoch MP**

Exchequer Secretary to the Treasury and Minister for Equalities

# Chapter 1

## Introduction

### Background

- 1.1 Alcohol duty is a long-standing system of taxes, dating back to 1643. It is comprised of four individual taxes: beer duty, spirits duty, cider duty and wine duty. Along with traditional table wines made from grapes, wine duty includes a wide range of produce, called 'made-wine', which are fermented alcoholic beverages that do not fit into the other categories.
- 1.2 Today, alcohol duty raises over £12 billion each year, providing important revenue for public services such as the NHS, and seeks to address the harm caused to society and public health by excessive or irresponsible drinking.
- 1.3 While the UK was a member of the European Union (and previously the European Economic Community), many aspects of the excise regime including alcohol duty were subject to EU law. For example, the European Court of Justice ruled on the taxation of wine and beer in 1983<sup>1</sup>. This remains the case until the end of the transition period on 31 December 2020.
- 1.4 In 1992, member states agreed the Alcohol Structures Directives (92/83/EEC and 92/84/EEC) which harmonised many aspects of member states' duty regimes, while allowing individual member states flexibility to set different alcohol duty rates. Notably, these Directives were not revised while the UK was a member of the EU – for example, the minimum rates specified in 92/84/EEC have not been increased with inflation and remain at 1992 levels.
- 1.5 Recognising the complexity and inconsistencies in the current system, as well as the opportunity to update and improve upon the Alcohol Structures Directives, the Government announced at the 2020 Budget that it would undertake a comprehensive review of the current system of the alcohol duty structures.
- 1.6 Historically, the Government has tended to alter individual elements of the duty system. The Government believes that it is now right to conduct a comprehensive and holistic review of the system, rather than undertaking further piecemeal reform of individual elements.

### Scope of the review

- 1.7 The Government intends to use this review to consider whether, and if so how, the overall design of the duty system can be improved for the long-

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<sup>1</sup> Commission v United Kingdom – Case 170/78 – of 12 July 1983



term. The Government intends any reforms to be balanced and fair across the whole industry, without conferring undue advantage to any particular category or sub-sector of alcohol producers.

- 1.8 The Government is seeking to review the duty system with a view to:
- a) Simplifying the current complicated system;
  - b) Making the basis of alcohol taxation more economically rational, with fewer distortions and arbitrary distinctions; and,
  - c) Reducing the administrative burden on producers when paying duty and complying with excise requirements.
- 1.9 The amount of revenue raised by alcohol duty – and therefore the rates of the individual duties – remains a matter for the Chancellor and is reviewed at each Budget in line with the wider economic and fiscal position. While this review will consider the different tax treatment of different types of alcoholic beverages, it will not seek to change the overall amount of revenue obtained from alcohol duty. Rates of alcohol duty may be changed by the Chancellor while the review is ongoing.
- 1.10 The Government is also mindful that Article III of the General Agreement on Tariffs and Trade requires imported and domestically produced goods to be subject to the same rate of internal (i.e. non-tariff) taxation. The Government remains committed to its World Trade Organisation (WTO) obligations and accordingly reforms that seek to create a distinction between such products will not be considered.
- 1.11 The Government notes that the Scottish and Welsh Governments have recently introduced systems of minimum unit pricing for the retail of alcoholic drinks. As this concerns price regulation, rather than the system of alcohol duty, the extension of these schemes to England is outside the scope of this review. However, the Government is actively monitoring the emerging evidence base around minimum unit pricing.
- 1.12 The Government has consulted on the treatment of passengers travelling to and from the UK after the end of the transition period on 31 December. The Government announced that it will extend duty-free sales for passengers travelling from the EU to the UK and vice versa. The personal allowance for duty-free alcohol for passengers travelling from anywhere in the world (including the EU) to the UK will also be significantly increased. However, the Government also announced that the ability of passengers travelling from the EU to bring back unlimited amounts of duty-paid alcohol will end. This process has concluded and, accordingly, the treatment of passengers carrying or purchasing alcohol while travelling does not form part of this review.
- 1.13 The Government has also been reviewing Small Brewers Relief (SBR) separately since 2018 and has announced that changes will be made to this relief, subject to further consultation. Accordingly, this topic is outside of the scope of this call for evidence.

## Responding to the call for evidence

- 1.14 The Government welcomes contributions from any individual or organisation interested in reform of the alcohol duty system. This includes but is not limited to taxpayers, industry bodies and public health groups.
- 1.15 This call for evidence document sets out a specific series of questions about the duty regime and how it might be changed in the future. These can be found in a collated form in chapter 6. The Government would be grateful if respondents could answer these questions directly, although of course respondents may not feel in a position to answer every question. However, respondents should not feel limited to only these questions when providing views on the duty system, and the Government will also consider written submissions on other aspects provided to the review.
- 1.16 Responses to the call for evidence should be submitted to [HMTVATandExcisePolicy@hmtreasury.gov.uk](mailto:HMTVATandExcisePolicy@hmtreasury.gov.uk) no later than 23:59 on 29 November, using the provided template published alongside this document on the GOV.UK website. Regrettably, the Government is not able to consider responses that are submitted in any other way (e.g. sent in the post in hard copy form). If respondents are unable to meet this deadline, they should contact the review team using the email above to seek an extension.
- 1.17 This is a joint call for evidence between HM Treasury and HM Revenue and Customs (HMRC). HM Treasury are leading on the questions and issues discussed in Chapters 2, 3 and 4, while HMRC are leading on the questions and issues set out in Chapter 5. The lead official for HM Treasury is Charles Barry, and the lead official for HMRC is Paul Harrison. Both can be contacted at the email address above.
- 1.18 At this stage, the Government is not consulting on specific proposals to change the duty system. The Government is interested in understanding the views of stakeholders on how well the system currently works and how it might be reformed. After this first stage has concluded, the Government will seek to bring forward more detailed proposals in line with its tax policy-making framework.

## Northern Ireland

- 1.19 The Government is willing to consider responses to this call for evidence that include suggestions that would require divergence from the Alcohol Structures Directives. However, the Government is aware that under Article 8 of the Northern Ireland Protocol of the Withdrawal Agreement, the Alcohol Structures Directives (and any future revisions to them) will apply to Northern Ireland.
- 1.20 The Government is committed to its obligations under the Northern Ireland Protocol. The implementation of the VAT and excise measures specified by the Protocol is currently the subject of ongoing UK/EU discussions.
- 1.21 Therefore, the application of any reforms resulting from this review to Northern Ireland will be a matter for the UK and EU to consider after 1 January 2021 in line with Article 8.

## **Data protection notice – processing of personal data**

1.22 This notice sets out how HM Treasury and HMRC will use respondents' personal data for the purposes of this call for evidence and explains their rights under the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA).

### **The data – data subject categories**

1.23 This call for evidence is open to all interested persons and organisations. Therefore, personal information that we will collect could relate to members of the public, parliamentarians, and representatives of organisations and companies.

### **The data we will collect – data categories**

1.24 Information will include the name, address, email address, job title and employer of the correspondent, as well as their opinions and answers to the questions posed by this call for evidence. Respondents may volunteer additional identifying information about themselves or third parties.

### **Legal basis of processing**

1.25 The processing we will conduct is necessary for the performance of a task carried out in the public interest – namely, consulting on departmental policies or proposals, or obtaining opinion data, in order to develop good and effective policies.

### **Special data categories**

1.26 Although not being requested, it is possible that special category data may be processed if such data is volunteered by the respondent.

### **Legal basis for processing special category data**

1.27 If special category data is volunteered by the respondent, the legal basis relied upon for processing will be explicit consent of the data subject and/or that the processing will be necessary for reasons for substantial public interest in the exercise of a function of the Crown, a Minister of the Crown or a government department – namely, consulting on departmental policies, or obtaining opinion data, to develop good effective policies.

### **Purpose**

1.28 The personal information collected will be processed in order to obtain the opinions of stakeholders, members of the public and representatives of organisations and companies about departmental policies, or generally to obtain public opinion data on an issue of public interest.

### **With whom we may share responses – and confidential information**

1.29 Information provided in response to this call for evidence may be published or disclosed in accordance with the access to information regime. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004 (EIR).

1.30 If a respondent wishes the information that they provide to be treated as confidential, please be aware that under the FOIA there is a statutory code

of practice with which public authorities must comply. It deals with, amongst other things, obligations of confidence.

- 1.31 In view of this it would be helpful if respondents could explain to HM Treasury and HMRC why they regard the information they have provided as confidential. If we receive a request for disclosure of the information, we will take full account of the reasons provided, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury or HMRC.
- 1.32 Where someone provides special category personal data or personal data about third parties, we will endeavour to delete that data before any publication takes place.
- 1.33 Where information about respondents is not published, it may be shared with officials within other public bodies involved in this call for evidence to assist us in developing the policies to which it relates. In particular, all information provided to the call for evidence will be automatically shared with both HM Treasury and HMRC.
- 1.34 HM Treasury and HMRC reserve the right to publish their own response or a summary of responses received from the public, which may feature quotations or extracts from provided responses.

#### How long we will retain data provided

- 1.35 Personal information in responses to calls for evidence will generally be published and therefore retained indefinitely as an historic record under the Public Records Act 1958.
- 1.36 Personal information in responses that are not published will be retained for at least three calendar years after the consultation has concluded.

#### Rights of respondents

- 1.37 Respondents have the following rights in relation to this call for evidence:
- To request information about how their personal data are processed and to request a copy of that personal data;
  - To request that any inaccuracies in their personal data are rectified without delay;
  - To request that their personal data are erased if there is no longer a justification for them to be processed;
  - In certain circumstances (for example where accuracy is contested), to request that the processing of their personal data is restricted;
  - To object to the processing of their personal data where it is processed for direct marketing purposes; and,
  - To data portability, which allows their data to be copied or transferred from one IT environment to another.

## How to submit a data subject access request (DSAR)

- 1.38 To request access to personal data that HM Treasury holds about you, please contact:

HM Treasury Data Protection Unit  
G11 Orange  
1 Horse Guards Road  
London  
SW1A 2HQ  
[dsar@hmtreasury.gov.uk](mailto:dsar@hmtreasury.gov.uk)

## Complaints

- 1.39 If a respondent has any concerns about the use of their personal data, they should contact HM Treasury at [privacy@hmtreasury.gov.uk](mailto:privacy@hmtreasury.gov.uk)
- 1.40 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner, the UK's independent regulator for data protection. The Information Commissioner can be contacted at:

Information Commissioner's Office  
Wycliffe House  
Water Lane  
Wilmslow  
Cheshire  
SK9 5AF  
0303 123 1113  
[casework@ico.org.uk](mailto:casework@ico.org.uk)

- 1.41 Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

## Contact details

- 1.42 The data controller for any personal data collected as part of this consultation is HM Treasury, the contact details for which are:

HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ  
020 7270 5000  
[public.enquiries@hmtreasury.gov.uk](mailto:public.enquiries@hmtreasury.gov.uk)

- 1.43 The contact details for HM Treasury's Data Protection Officer (DPO) are:

The Data Protection Officer  
Corporate Governance and Risk Assurance Team  
Area 2/15  
1 Horse Guards Road  
London  
SW1A 2HQ  
[privacy@hmtreasury.gov.uk](mailto:privacy@hmtreasury.gov.uk)

# Chapter 2

## Overview of the current system

- 2.1 Alcohol duty is made up of four individual taxes, namely beer duty, cider duty, spirits duty and wine duty. These are all excise duties and form part of the Government's wider excise regime.
- 2.2 Although the precise details vary between the duties, in most cases the producer will be liable for the duty as the product leaves their premises for general sale. Producers can claim back duty (known as 'drawback') in several circumstances, for example if the product is exported or declared spoilt and destroyed.
- 2.3 There are also a variety of reliefs from alcohol duty. For example, food and vinegar producers can claim back duty paid on alcoholic ingredients used in their products. Producers using alcohol for medical and scientific purposes can use duty-free alcohol. Drinks containing alcohol but under 1.2% ABV (alcohol by volume), for example low-alcohol beers, are not liable to alcohol duty. In addition, small amounts of produce made for personal consumption only (such as home brewed beer or wine) are not liable for excise duty.
- 2.4 This chapter sets out the rates and how each of the individual duties are structured, including the principal historical decisions that led to their current design. Chapter 3 compares the individual duties as an overall system. Chapter 5 compares the duties in terms of their administrative requirements.
- 2.5 The current primary legislation governing the current duty system is set out in the Alcoholic Liquor Duties Act 1979, as amended by subsequent Finance Acts. This Act consolidated several previous items of legislation. Legislation governing the broader excise regime can be found in the Customs and Excise Management Act 1979. HMRC produce various Excise Notices containing detailed information on how their processes work and what taxpayers are required to do. For example, Excise Notice 162 contains detailed guidance on cider duty.

### The individual duties

#### Beer duty

- 2.6 Beer duty was first imposed in 1643. In 1697 additional taxes were imposed on important beer ingredients – malt and, later in 1711, hops. In 1830, owing to the difficulties of collecting beer duty (in 1838 49,200 brewers' licences were issued), beer duty was abolished in favour of higher malt taxes. Hops duty was replaced in 1862 with a Brewers' Licence Duty on total production. In his 1880 Budget, Gladstone abolished the malt tax in favour

of a reformed beer duty, devoting a remarkable over 8,000 words of his speech to the topic. This system, which was charged in reference to the sugar content of the wort (its original gravity), remained in place until the current system of beer duty was introduced in 1992.

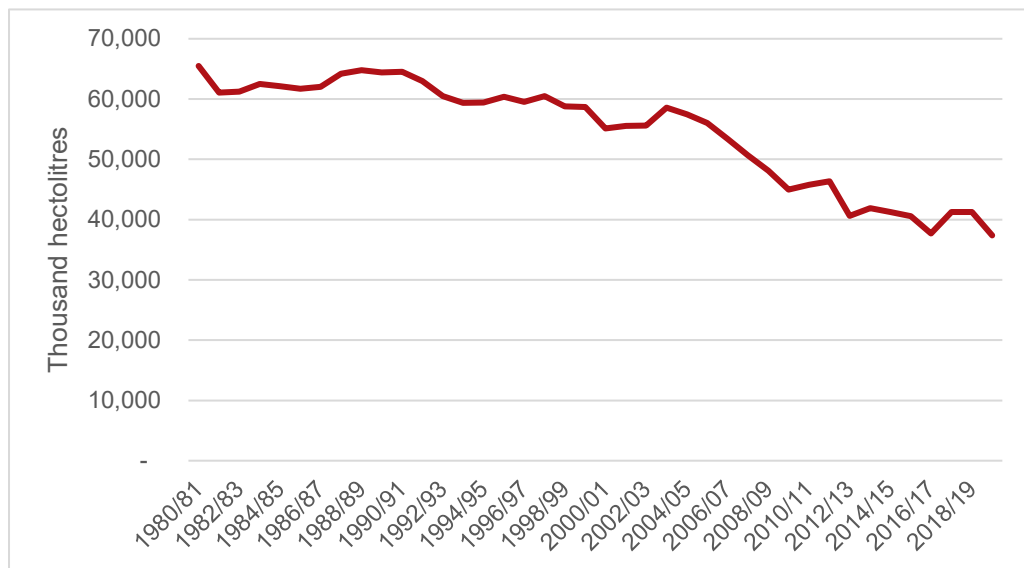
- 2.7 Today, beer is taxed in proportion to the strength of the final product. A beer is taxed according to the number of hectolitres (hL) produced multiplied by the ABV of the final product. For example, a 4% beer will pay  $£19.08 * 4 = £76.32$  per hectolitre of beer.
- 2.8 From 1992 to 2011, there was a single band, meaning a 2% ABV beer would pay half the duty of a 4% ABV beer and one-quarter of that of an 8% ABV beer. In 2011, the Government announced that a lower band (now less than half the duty rate of the standard band) would apply to beers between 1.2% and 2.8% ABV (2.8% being the maximum permitted by the Alcohol Structures Directives at that time). It also announced an additional 30% excise duty would be charged to beers stronger than 7.5% ABV.
- 2.9 Accordingly, beer is currently liable for beer duty in the current bands:
- 1.2% ABV or below: the beer is not liable for duty
  - Above 1.2% to 2.8% ABV: £8.42 per hL per cent ABV
  - Above 2.8% to 7.5% ABV: £19.08 per hL per cent ABV
  - Above 7.5% ABV: £24.77 per hL per cent ABV
- 2.10 If beer is mixed with another product, it may be liable for a different duty. For example, while a pre-mixed shandy (beer with lemonade) with a final ABV level below 5.5% will pay beer duty, above this level the product would instead be classified as made-wine and be liable for wine duty. If a beer is mixed with spirits, it will be liable for spirits duty instead of beer duty.

## Trends

- 2.11 As can be seen on the charts below, beer production has fallen by around a third over the last 40 years. Most of this came in the decade between 2000 and 2010. As seen in the next chapter, the rate of beer duty (on a standard-strength beer) has maintained its value in real terms. Accordingly, beer duty receipts have declined by a similar amount corresponding to the falls in production, although the two are not perfectly correlated.

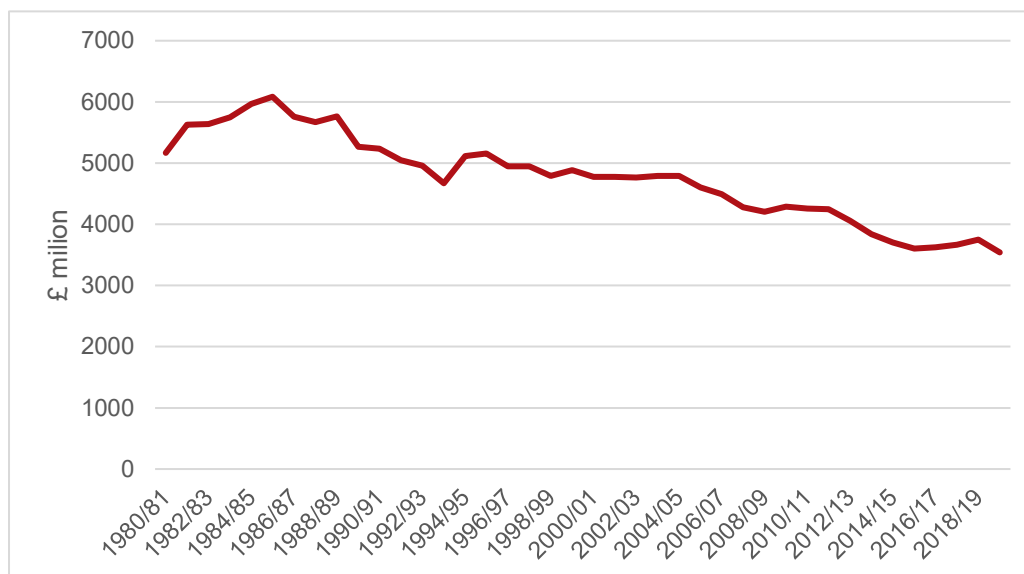


**Chart 2.A: Beer production**



Source: HMRC Alcohol Factsheet and Alcohol Duty Bulletin

**Chart 2.B: Beer duty receipts (2019 prices)**



Source: HMT analysis of HMRC data

### Small Brewers Relief (SBR)

2.12 Beer duty is unique amongst the four individual duties in that beer produced by small breweries is eligible to pay lower rates. This scheme is known as Small Brewers Relief (SBR). Currently, independent breweries producing less than 5,000 hectolitres per year are eligible to pay rates 50% lower than those listed above. For breweries between 5,000 and 60,000 hectolitres, a formula applies to gradually reduce this discount to 0%. SBR does not apply to the 30% additional duty incurred on beers above 7.5% ABV or the reduced duty rate for beer below 2.8% ABV.

- 2.13 As mentioned in the previous chapter, the Government has been reviewing SBR separate to this call for evidence since 2018, and has announced changes will be made to this relief, subject to further consultation.

## Cider duty

- 2.14 Cider duty was introduced for the first time in 1643, at an equivalent rate to beer. It was the subject of a notable Parliamentary controversy in 1763 and was abolished in 1830. It was briefly reinstated between 1916-1923 before finally being reintroduced in the modern era in 1976.
- 2.15 Cider (including perry<sup>1</sup>) is taxed according to the volume of the product produced. There are different bands applicable depending on the strength of the cider, however (unlike beer) within that band different strength products will be liable for the same rate of duty. Having a specific duty regime for cider is relatively uncommon internationally, as most countries treat it as part of their wine duty regime.

## The definition of cider and juice requirements

- 2.16 Although not true historically, in modern times cider is taxed at a much lower rate of duty to other equivalent strength alcoholic products such as beer or made-wines. This is again uncommon internationally and Ireland, Romania and Poland are the only countries within the EU to do so.
- 2.17 Accordingly, the qualifying criteria for what constitutes cider is important as it can significantly affect the pricing of a product. Products that do not meet these criteria are instead liable to be taxed as made-wines subject to wine duty. Since its inception, cider duty is paid upon fermented beverages made exclusively from apple or pear juice without the addition of any other alcoholic product (a limited number of additives are authorised by HMRC). This means that products marketed as “fruit ciders” (made using another type of fruit e.g. strawberry juice) will be liable to wine duty rather than cider duty.
- 2.18 Furthermore, although cider is required to be made only by fermenting apple or pear juice, it is possible to reduce the expense of making cider by dilution. This can be done by adding e.g. water and sugar to the product before or after fermentation. In 2001, the Government legislated to ban the practice of avoiding duty by diluting the finished product after duty had been paid to HMRC. A 2004 research paper by the Food Standards Agency<sup>2</sup> also identified that some ciders on the market contained as little as 7% juice in them. In 2010, the Government further tightened the definition of cider by setting juice requirements. This requires beverages to contain at least 35% juice in the pre-fermented and overall final product with a gravity of at least 1033 degrees, in order to qualify for the lower rate of duty available to cider.

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<sup>1</sup> Traditionally, cider describes products made from apple juice while perry refers to products made from pear juice. As both are taxed equivalently, in this call for evidence in most contexts the term “cider” is used to refer to both products.

<sup>2</sup> “An assessment of chemical markers for the establishment of juice content in ciders” - Dr Sian Thomas, Food Standards Agency Project Q01057A March 2004

## Still cider rates

2.19 Upon its reintroduction in 1976, cider duty originally consisted of a single band covering all products that qualified as cider. However, in 1996 an additional band was added for ciders between 7.5%-8.5% ABV (the highest ABV permitted to qualify as cider), and in 2018 another band was added for products between 6.9-7.5% ABV.

2.20 The rates applicable to still ciders are therefore:

- 1.2% ABV or below: the cider is not liable to duty
- Above 1.2% to below 6.9% ABV: £40.38 per hL
- 6.9% to 7.5% ABV: £50.71 per hL
- Above 7.5% to below 8.5% ABV: £61.04 per hL
- Above 8.5% to 15% ABV: £297.57 per hL (wine duty rate)
- Above 15% to 22% ABV: £396.72 per hL (wine duty rate)
- Above 22% ABV: £28.74 per L of pure alcohol (spirits equivalent rate)

## Sparkling ciders

2.21 Ciders can also be rendered sparkling, for example through artificial carbonation or a second fermentation process. Originally such ciders were subject to the same rate as still ciders, however in 1997 sparkling ciders were put on to a separate band, and in 1999 they were moved to the same rate of tax as sparkling wines. Accordingly, today sparkling cider not exceeding 5.5% ABV is taxed at the same rate as still cider and sparkling ciders above this strength level are taxed at the same rate as sparkling wines.

2.22 The classification of sparkling ciders is that a sparkling cider is one where the pressure in the bottle exceeds 3 bars at 20 degrees Celsius, or the product is sold with a "mushroom shaped stopper". Accordingly, it is possible for producers to market products in excess of 5.5% ABV as 'slightly sparkling' and yet be liable to only pay the still cider rate.

2.23 The rates applicable to sparkling ciders are therefore:

- Below 1.2% ABV: the cider is not liable to duty
- Above 1.2% to 5.5% ABV: £40.38 per hL
- Above 5.5% to below 8.5% ABV: £288.10 per hL
- 8.5% to 15% ABV: £381.15 per hL (wine duty rate)
- Above 15% to 22% ABV: £396.72 per hL (wine duty rate)
- Above 22% ABV: £28.74 per L of pure alcohol (spirits equivalent rate)

## Small cidemakers exemption

2.24 Unlike the other duties, very small cider makers, producing less than 70hL per year, are eligible to an exemption from paying excise duties. This was designed to avoid enmeshing small farmers in the duty regime. It differs from the SBR scheme for beer, where brewers of all sizes are required to

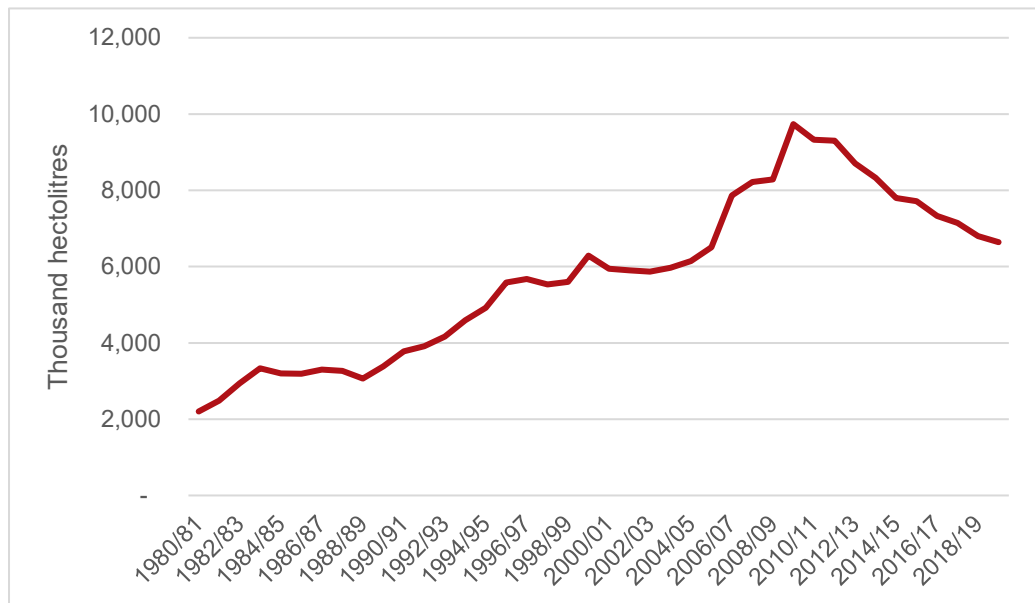
register for excise duties, but pay a reduced rate depending on their size which tapers as they grow. Once a small cidemaker produces any amount over 70hL, they are required to pay excise duty on all their produce – not just the amount produced over 70hL – at the normal rate of cider duty.

2.25 Currently, the Alcohol Structures Directives do not allow for reduced rates of duty for producers of “other fermented beverages” such as cider. However, a recently published revision, coming into effect on 1 January 2022, will permit this.

### Trends

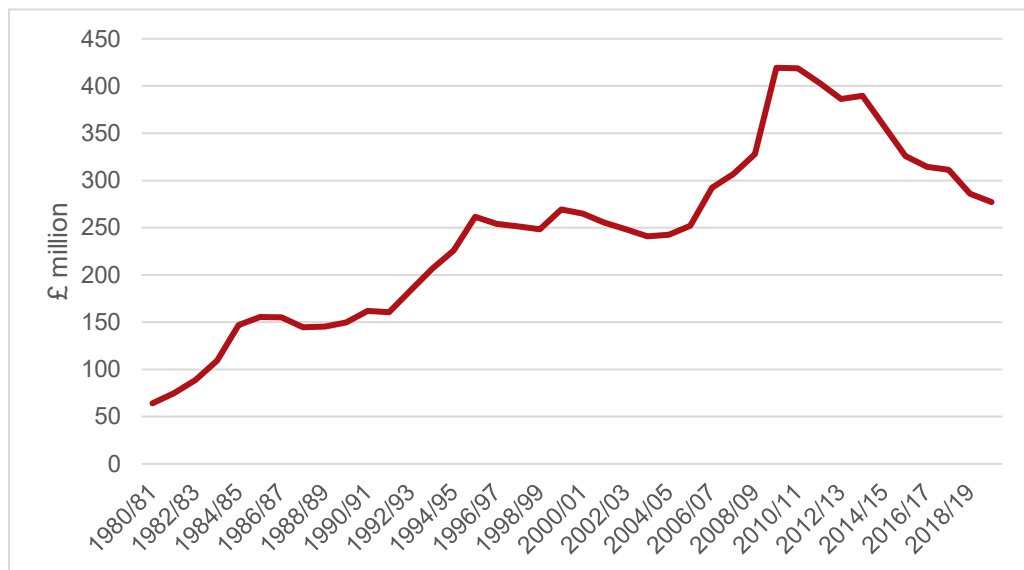
2.26 Between 1980 and 2010, cider enjoyed a long run of continuous growth. Production levels increased from 2.2 million hectolitres in 1980/81 to 9.7 million hL in 2009/10, and duty receipts (in 2019 prices) increased from £64 million to £419 million over this period. However, the last decade has seen a relative decline in the industry, with production and receipts falling from their 2009/10 peak to 6.6 million hL and £277 million respectively in 2019/20, although this is still above 2004 levels. These trends are charted below.

Chart 2.C: Cider production



Source: HMRC Alcohol Factsheet and Alcohol Duty Bulletin

Chart 2.D: Cider duty receipts (2019 prices)



Source: HMT analysis of HMRC data

## Spirits duty

- 2.27 A duty on spirits (originally termed “aqua vitae” or “strong waters”) was first introduced in 1643 and has been in continuous operation since 1660, although its basis has varied significantly since then. Spirits duty has often been used as a public health measure to reduce harmful consumption of alcohol, such as during the 18<sup>th</sup> century “gin craze” or WW1. Significant changes were made in 1823 to tackle high levels of illicit production, introducing the concept of taxing spirits by the proof gallon. In 1855 the first system was put in place for allowing denatured, methylated spirits to be used duty-free for industrial purposes. The system of taxing spirits on the basis of the proof gallon was changed in 1979 so that spirits are now taxed on the amount of pure alcohol produced.
- 2.28 All products which are stronger than 22% ABV are subject to spirits duty or to an equivalent rate. Except for fortified wines (discussed below), all products which involve adding spirits in their production are subject to spirits duty. While from 1988 low strength products below 5.5% ABV made with spirits were able to be classed as made-wines (and thus subject to a lower rate of duty), in 2002 this exemption was removed, meaning that these products (principally “ready to drink” beverages) must be subject to spirits duty.
- 2.29 Therefore, spirits duty today is conceptually a very simple tax, with a single band: all products pay £28.74 per litre of pure alcohol. This is equivalent to paying 29p per unit of alcohol in the final product. For example, a shot of vodka at 40% ABV will pay 29p duty. The tax is directly proportional to the amount of alcohol in the final product: a whisky at 37.5% ABV will pay £1,077.75 per hectolitre while a liqueur at 25% ABV will pay £718.50 per hectolitre.
- 2.30 Given the high risks associated with spirits being diverted to the illicit market, and that spirits are often produced industrially and not just as a beverage,

their manufacture is subject to firm controls. Distillers are required to obtain a licence from HMRC, and separate licencing regimes exist for compounders or rectifiers (those who modify spirits further e.g. adding flavourings).

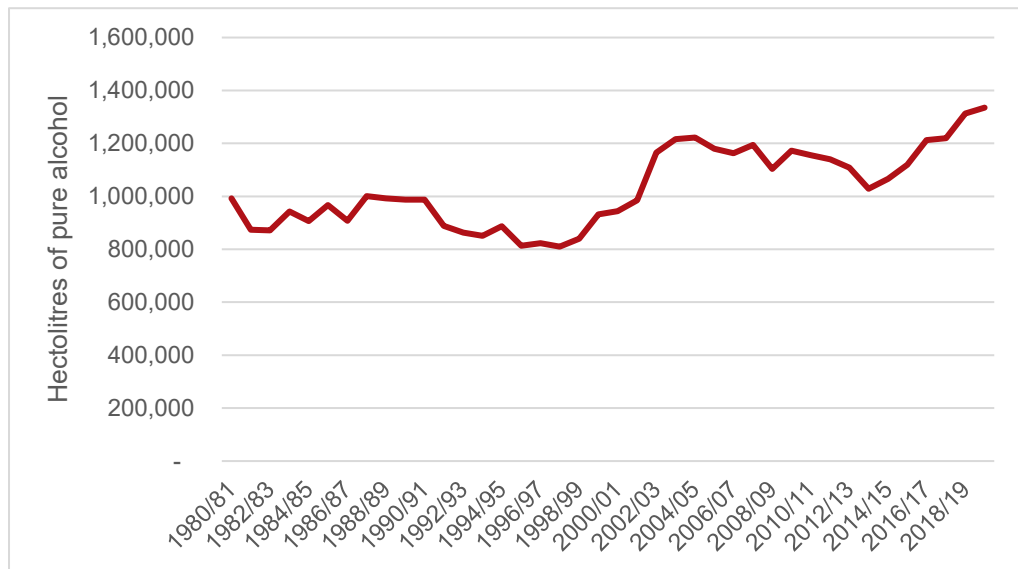
2.31 In contrast to the beer and cider regimes, small distillers are not subject to any reliefs or exemptions. In fact, current legislation provides grounds for HMRC to refuse a distillers’ licence to an operation where the largest still is 18 hectolitres capacity or less. While member states are permitted to introduce reduced rates for spirits under the Alcohol Structures Directives, the Government has to date not implemented this option.

**Trends**

2.32 As will be discussed in chapter 3, spirits duty has deflated significantly, with the rate of spirits duty halving over the last 40 years in real terms. Going back further, the rate of spirits duty has decreased almost continuously since 1969, when spirits duty was approximately (in 2019 prices) £137 per litre of pure alcohol, significantly down from its 20<sup>th</sup> century peak of (in 2019 prices) £173 per litre of pure alcohol in 1948.

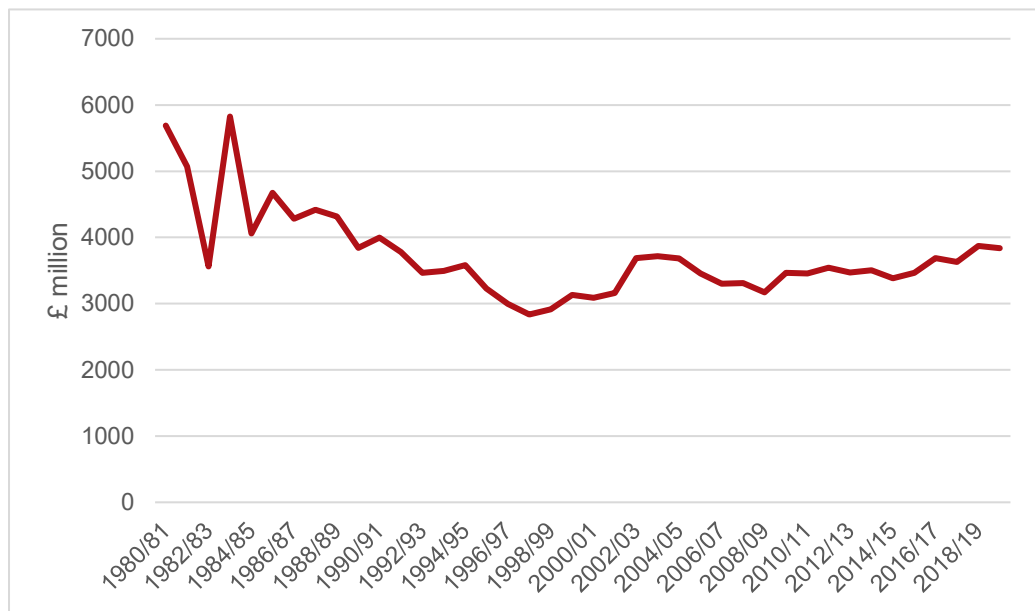
2.33 As can be seen in the charts below, spirits volumes have grown by around 30% over the last 30 years, although some of this comes from the inclusion of the “Ready To Drink” sector, which as mentioned in 2002 were reclassified as spirits products. However, this latter category declined significantly from 2002 to 2014, shrinking from 127,000 hL production to 14,000 hL production (of pure alcohol) over this period.

**Chart 2.E: Spirits production**



Source: HMRC Alcohol Factsheet and Alcohol Duty Bulletin

Chart 2.F: Spirits duty revenues (2019 prices)



Source: HMT analysis

- 2.34 Within spirits duty, there have been significant compositional changes to the main contributors to duty receipts. For example, domestically produced whiskies reduced from 34% of spirits volumes in 2000 to 17% in 2019.

## Wine duty

- 2.35 Wine historically was taxed mostly by customs duties (tariffs) as it was primarily an imported product. The first such duties were imposed in 1303. Excise duties on these products were imposed during the English Civil War in 1643, and an excise regime on imported wines was in place from 1786 to 1825.
- 2.36 The tax system historically distinguished between wines from other countries and British-produced wines, including fermented products not classed as beer or cider. For example, a tax on mead, separate to the other duties, was introduced in 1643. An excise duty on domestic wines (referred to as “sweets” until 1962) was in place from 1696 to 1834, and then from 1927 to 1975.
- 2.37 In 1975 a significant restructuring of the duties took place to create two duties, the first covering wine made from grapes and the second on “made-wine”, a catch-all category covering any product not subject to any of the other duties. These applied to both domestic and imported products, differing only on whether the product was made from grapes. This ended any distinction in the alcohol duty system between domestic and imported alcoholic products. Both duties had different bands and rates, until they were harmonised in 1984.
- 2.38 Today, all wine duties are taxed in reference to the volume of product manufactured, with different bands depending on the strength and type of the product. Unlike beer and spirits, and like cider, within these bands the duty liable does not move in proportion to the strength of the product. For

example, a 3% and 4% made-wine will pay the same amount of duty. This has the effect of reducing the duty paid per unit of alcohol as the product gets stronger.

### Still wines

2.39 Following the harmonisation of wine and made-wine in 1984, there were significant changes to the structure of still wines in the 1980s and early 1990s. Originally there was a single band covering all products below 15% ABV, with further bands covering products between 15-18% ABV, 18-22% ABV and above 22% ABV. In 1990 the bands were changed significantly by adding five bands for products below 5.5% ABV and a single wide band covering products between 5.6-15% ABV. The 15-18% ABV band was dropped in favour of a single one covering products between 15-22% ABV.

2.40 In 1995 further amendments were made to the rates affecting lower strength wines, simplifying them to two bands for products below 5.5% ABV. Since then, the structure of duties affecting still wine and made-wine has been unchanged.

2.41 For still wines and made-wines, therefore the rates of duty are as follows:

- 1.2% ABV or below: no duty is liable on the wine
- Above 1.2% to 4% ABV: £91.68 per hL
- Above 4% to 5.5% ABV: £126.08 per hL
- Above 5.5% to 15% ABV: £297.57 per hL
- Above 15 to 22% ABV: £396.72 per hL
- Above 22% ABV: £28.74 per L of pure alcohol (spirits equivalent rate)

2.42 The bands used for still wines, in particular the 5.5-15% ABV band, are unusually wide for a duty which is not taxed in proportion to the strength of the product. This means that a 5.6% wine and a 15% one both pay the same amount of duty per hL, despite the former containing only 37% of the alcohol of the latter.

### Sparkling wine

2.43 Sparkling wine has historically been taxed at a different, higher rate to still wines. In the modern era, until 1984 a simple surcharge was applied to the duty rates, meaning sparkling wines and made-wines paid around 15-20% more than their still equivalents. From 1984, changes were made so that sparkling and still products above 15% ABV paid the same rate of duty, but there were different bands for products below this point. In 1990, rates for still and sparkling products below 5.5% ABV were harmonised. A separate band was created for sparkling products between 5.6%-8.5% ABV in 1997.

2.44 Currently, the rates for sparkling wines are as follows:

- 1.2% ABV or below: no duty is liable on the wine
- Above 1.2% to 4% ABV: £91.68 per hL
- Above 4% to 5.5% ABV: £126.08 per hL



- Above 5.5% to below 8.5% ABV: £288.10 per hL
- 8.5% to 15% ABV: £381.15 per hL
- Above 15% to 22% ABV: £396.72 per hL
- Above 22% ABV: £28.74 per L of pure alcohol (spirits equivalent rate)

2.45 This means that there are now duty differences between sparkling and still wines and made-wines between 5.5% and 15% ABV: at all other strengths, products are taxed the same. Between 5.5% and 8.5% ABV sparkling products now pay a slightly lower rate of duty, while sparkling products between 8.5% and 15% pay around 28% more duty than still wines.

### Fortified and strong wines

2.46 Fortified wines have also been taxed differently to still wines on account of their higher alcohol content. Historically, higher taxes were imposed on these products and “low wines” (products made in their distillation). In the modern era, wines above 22% ABV were taxed at a premium rate, paying additional duty for every percentage ABV point above 22%.

2.47 This system ended in 1993 for products above 22% ABV, as they were moved to be taxed at the same rate and on the same basis (i.e. by the amount of pure alcohol produced) as spirits.

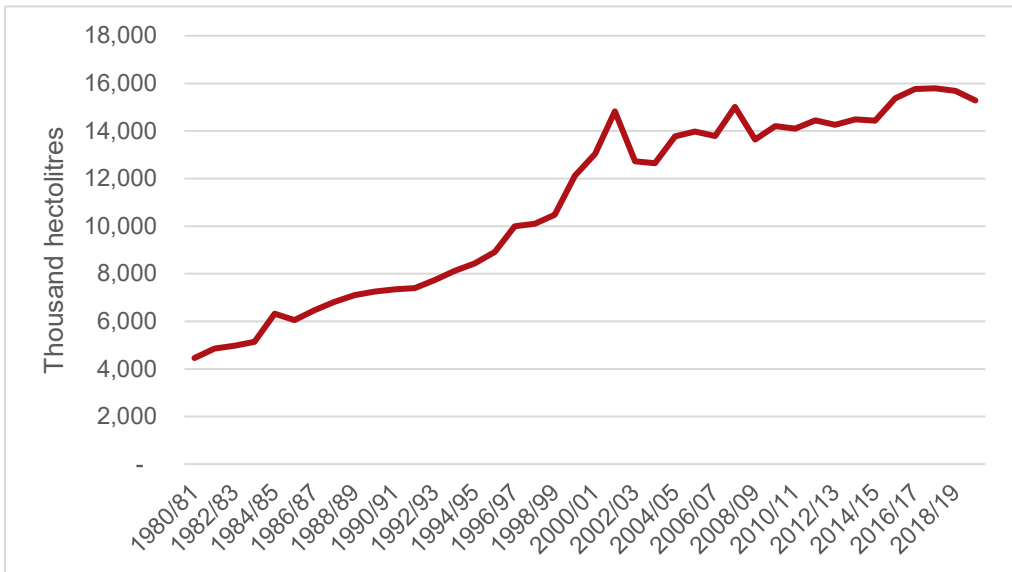
2.48 However, fortified wines continue to benefit from an exemption from the usual rule that products mixed with spirits should be subject to spirits duty. Wines and made-wines can be mixed with spirits in an excise warehouse and still pay wine duty, provided that:

- a) the strength of the product does not exceed 22% ABV, and
- b) the product would not be classified as a spirit under the UK Tariff.  
There are several tests applied, including whether the majority of the alcohol in the product comes from wine/made-wine or spirits.

### Trends

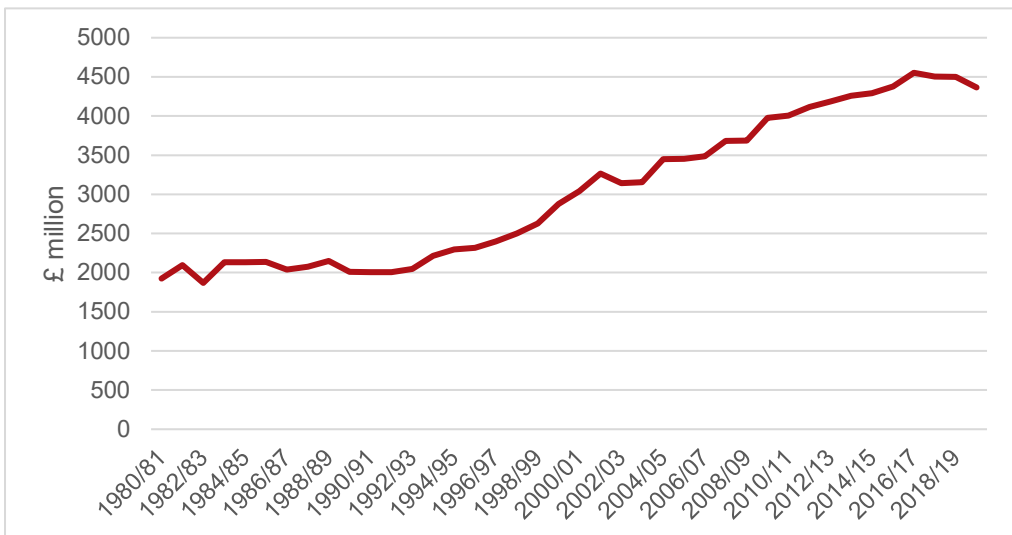
2.49 Wine production has more than tripled over the last 40 years. Accordingly, wine duty revenues have significantly increased, although not in exact step.

**Chart 2.G: Wine production**



Source: HMRC Alcohol Factsheet and Alcohol Duty Bulletin

**Chart 2.H: Wine duty revenues (2019 prices)**



Source: HMT analysis

**Box 2.A: Overview of the current system - questions**

- 1 Overall, how effectively does the current set of individual duties work in meeting the Government's aims of raising revenue and protecting public health?
- 2 Do you have any general comments about the current system of alcohol duties, and how it could be improved? In particular, if you are a producer, we would welcome information on your experiences of the duty system.

3 Are there any structural changes you anticipate taking place in the alcohol industry that you believe the duty regime should reflect?

# Chapter 3

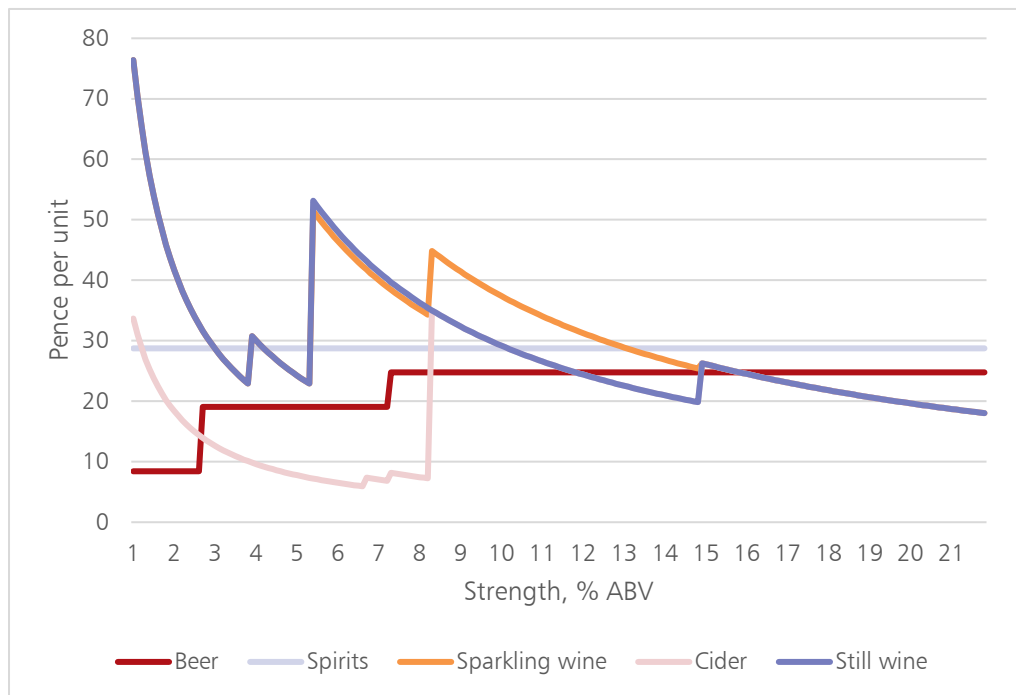
## Comparisons between the duties

3.1 While the previous chapter set out in detail why and how the current individual duties are constituted, this chapter seeks to look at the duties as an integrated system.

### Products by strength

3.2 The chart below shows the structures of the different duties mapped relative to one another. It sets out the different amounts each product will pay *per unit* at a given strength. Products above 22% ABV are not shown as these all pay the same rate as spirits duty. Sparkling ciders are also not included in this analysis as they simply switch from the cider rate to the sparkling wine rate above 5.5% ABV.

Chart 3.A: Comparison of duty per unit below 22% ABV



Source: HM Treasury analysis

3.3 As the chart shows, when compared on per unit basis the duty system as a whole is highly inconsistent. Spirits pay a flat rate at all strengths, while beer faces increasing rates of duty per unit as the product gets stronger.

3.4 As discussed earlier, because wine duty is not levied in proportion to the strength of the product, the duty per unit decreases as the product gets

stronger. For example, a 2% ABV and a 4% ABV made-wine will pay the same total amount of duty, but the latter will pay half the rate of duty per unit. While wine duty does have a series of bands (so that higher strength products pay more duty) these create a 'zig-zag' effect at the transition points. The most extreme of these is at the transition above 5.5% ABV. Wines at 5.5% ABV will pay 22p/unit, while those at 5.6% ABV will pay 53p/unit.

- 3.5 Due to the way the various wine bands are constructed, producers can be encouraged to increase the strength of the product up to the maximum for that band, particularly at low strength products. If wine products are competing against beer, producers are incentivised to produce at 4% or 5.5% ABV exactly, to minimise the duty per unit. There is no incentive to reduce the alcohol content within that band as the tax due will not reduce.
- 3.6 Weak ciders also pay the most tax per unit for any product subject to cider duty. The main cider band runs from 1.2-6.9% ABV and products at 6.9% ABV pay the lowest rate of duty per unit of any alcohol, at less than 6p/unit. The additional bands for ciders above 6.9% ABV do not significantly increase the amount of duty per unit – an 8% ABV cider will pay around 7p per unit, lower than a 4% ABV cider, which pays around 10p a unit. By contrast, a 9% ABV apple wine (which would not qualify for cider duty) would pay over 30p a unit.

## Inconsistencies and disparities between products

- 3.7 The different ways that the duties are constructed – as discussed in the previous chapter – mean that ultimately, a unit of alcohol will be taxed quite differently depending on whether the alcohol used to produce it came from malt, grapes, or apples. This can give rise to some notable inconsistencies between products, for example:
- Fruit or hopped ciders (ciders fermented from other fruits or having other fruits/hops added later) do not meet the criteria for cider duty and as such pay wine duty. This means a 5% ABV apple cider will pay 8p/unit, while a 5% ABV apple and blackberry cider will pay 25p/unit. For a 500ml bottle, this is a difference of 40p in duty.
  - Most wines above 13% ABV pay less duty per unit than those below this level. The highest strength wines, those exceeding 20.8% ABV, pay less duty per unit than any other wine and even less than standard strength beers between 2.8% ABV and 7.5% ABV. Until the practice of post duty point dilution was prohibited earlier this year, producers could take advantage of this fact by paying duty on high strength wine concentrates and then diluting the product, avoiding significant amounts of duty.
  - Strong ciders exceeding 7.5% ABV pay less duty per unit than any beer, including those in the low strength band below 2.8% ABV. In total terms a 500ml bottle of 8% ABV cider will pay less duty overall (30p) than a 3.5% ABV beer (33p). An equivalent strength 500ml beer at 8% ABV will pay 99p in duty.

- “Ready To Drink” products (such as a “cocktail in a can”) can be classified as a spirit drink or as a made-wine, depending on the composition of the final product. Even products which are marketed as a spirit-based cocktail (e.g. a mojito in a can) can in certain circumstances qualify as a made-wine and pay less duty. Likewise, products which might qualify for wine duty can pay beer duty if beer is used as the basis for the alcohol within the product and they are below 5.5% ABV.

3.8 Similar strength products at the same ABV can therefore face significantly different tax treatment, as set out in the tables below.

**Table 3.A: Comparison of duty for 4% ABV 500ml product (2 units)**

Product	Duty per unit	Total duty on product
Cider	10.1p	20.2p
Beer	19.1p	38.1p
Made-wine e.g. fruit cider	22.9p	45.8p
Spirit based product	28.7p	57.4p

*Source: HM Treasury analysis*

**Table 3.B: Comparison of duty for 8% ABV 500ml product (4 units)**

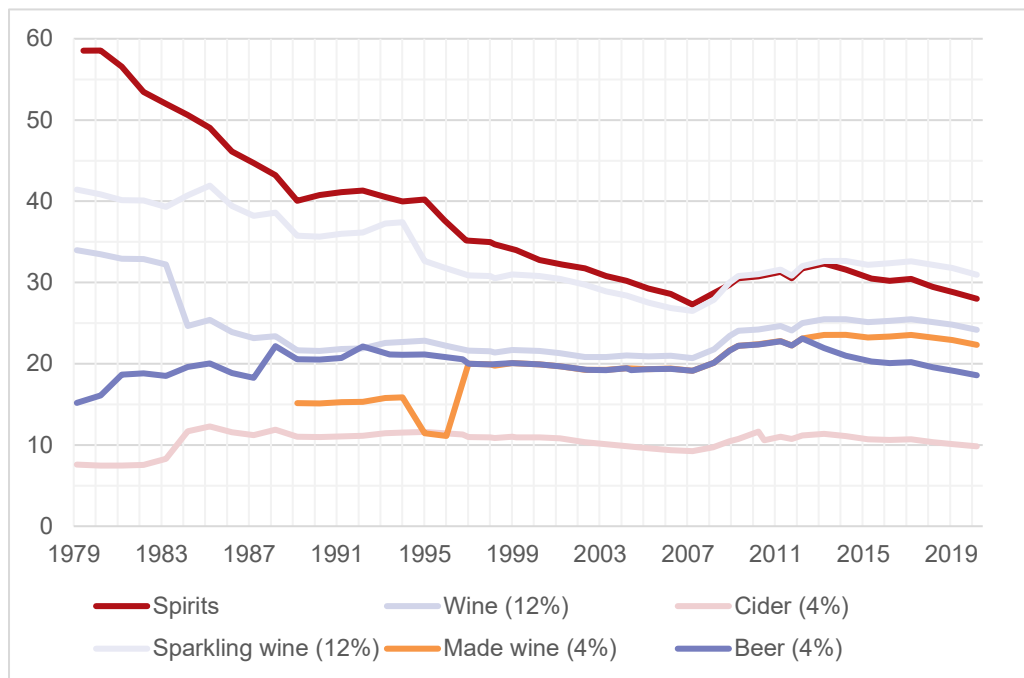
Product	Duty per unit	Total duty on product
Cider	7.6p	30.5p
Beer	24.8p	99.1p
Made-wine (still)	37.2p	148.8p
Spirit-based product	28.7p	114.8p

*Source: HM Treasury analysis*

## Changing values of products over time

3.9 As alcohol duties are expressed as fixed values (e.g. £190 per hectolitre), over time the value of the duty will decrease with inflation. Accordingly, the Government regularly increases the rates of the duties in order to keep pace with inflation and maintain revenues in real terms. However, under the current system it is open to the Chancellor to uprate or treat the several duties differently. Accordingly, the chart below maps how the values of the duties have changed over the last 40 years in real terms.

Chart 3.B: Duty in pence per unit for key products over time – 2019 prices



Source: HMT analysis of HMRC and ONS RPI data

- 3.10 In assembling the above chart, because of the different methods of taxing different products, in order to provide a comparison, assumptions have to be made about the strength of the products. While spirits will pay the same rate of duty at all strengths, this is not true for other products. For example, lower strength beers pay a reduced rate, and wine products pay less duty per unit as they increase in strength. Accordingly, the above chart maps the changes in duties for products at given reference strengths – for example, sparkling wines are commonly produced at 12% ABV.
- 3.11 Overall, there has been a significant convergence of alcohol duties over the last 40 years, with the gap between the lowest and highest taxed products converging from around 50p/unit in 1979 to around 30p/unit today. If cider duty is excluded, the gap has reduced even further: from 43p/unit in 1979 to around 12p/unit today.
- 3.12 The most pronounced trend over this period is that in real terms the duty paid on spirits products has approximately halved. In recent years spirits have been overtaken by sparkling wines as the most heavily taxed category of drink. By contrast, cider and beer have faced fairly constant treatment for the last 30 years. Another notable change is that following the end of the alcohol duty escalator in 2014, beer and wine duties (both for table wines and lower-strength made-wines) have diverged after tracking extremely closely from 1997 onwards.
- 3.13 Annex B contains a full list of uprating decisions since 1975.

### **Box 3.A: Comparisons between the different duties – questions**

- 4 Overall, how well do the different duties work when combined together as a system?
- 5 Do the differences and inconsistencies highlighted above cause real-world issues for producers and for public health, or are these more theoretical concerns? In particular, if you are a producer, have differences in the duties affected your business decisions?



# Chapter 4

## Potential structural reforms

4.1 This chapter considers potential changes that could be made to reform the structure of alcohol duty. As discussed earlier in this document, the Government is not committed to a particular direction for reform at this stage. Instead it is seeking to understand stakeholder views and the available evidence to inform its decision-making.

### Changing the method of taxation

4.2 Broadly, there are three methods of imposing excise duties on products:

- Specific taxation, where the product is taxed in reference to the content of the product. This is used in beer and spirits duty as products pay tax in proportion to the alcohol content of the product, even where there are different bands used for the tax.
- Unitary taxation, where the tax is imposed only in reference to the amount of product produced. This is used in wine and cider duty, although there are different bands depending on product strength, which try to mimic some elements of specific duty.
- Ad valorem taxation, which relates not to the content or amount of the product but its sales price. For example, cigarettes pay 16.5% additional duty of their intended sales price. This is separate to VAT.

4.3 Unitary taxation is commonly chosen for its simplicity. However as discussed in the previous chapter, it means that the duty per unit decreases as a product gets stronger. This can encourage manufacturers to increase the strength of their products to the maximum of a given tax band.

4.4 By contrast, specific taxation is commonly seen as the best approach for addressing public health concerns. The World Health Organisation has stated that “the most effective approach to taxation with a view to improving public health and reducing [alcohol-related] harm is to tax the volume of alcohol directly through a fully specific system of taxation”<sup>1</sup>. Specific taxes are also regarded by some tax practitioners as best practice for alcohol duty.<sup>2</sup>

4.5 Ad valorem duties are not used in the UK alcohol duty system but are common elsewhere in the world. For example, in Chile wine faces a surtax of around 20% on the finished product and Australia applies an ad valorem tax of 29% on wine at the wholesale stage (with no specific or unitary duty). Ad

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<sup>1</sup> Alcohol Pricing in the WHO European Region – update report on the evidence and recommended policy actions, World Health Organisation (2020).

<sup>2</sup> See e.g. Asia-Pacific Tax Forum, “ASEAN Excise Tax Reform: A resource manual”

valorem elements are usually intended to raise further revenue, as more expensive products pay more tax. They also allow duties to keep pace with inflation without the need for any uprating, as they are linked to the sales price. However, they do not address public health concerns as the duty is not linked to the alcohol content of the product.

- 4.6 Commonly, countries use different methods for different products. However, some countries have moved away from this to standardise their approach across all products. For example, Iceland and Singapore tax all their products on a specific basis only.

#### Box 4.A: Methods of taxation: questions

- 6 Is there a case to move to a standard method of taxation?
- 7 In particular, should the UK replicate the example of other countries and move wine and cider duties to be taxed in proportion to the strength of the final product, i.e. converted to a specific basis?

## Distinguishing products by the source of their alcohol

- 4.7 As discussed in previous chapters, there are many differences between the individual alcohol duties. When compared to one another they can appear arbitrarily inconsistent for no obvious policy reason. Alcohol can be taxed very significantly differently depending on whether it originates from sugar derived from a grape, barley or a berry.
- 4.8 Most countries distinguish between beer, wine and spirits and tax them separately with individual duties. However, some countries are starting to move away from this model towards a unified alcohol tax. For example, Norway taxes all fermented alcoholic products (wine, beer, cider) in the same way and at the same rates. However, spirits are still subject to a separate higher rate of duty than fermented products.
- 4.9 Another example comes from Singapore, who have a simple two-tier system: Beer and cider pay a reduced rate while wines and spirits pay a higher rate of duty, but both are taxed in reference to their alcohol content. Although not completely aligned (as strong beers can qualify for a lower rate of duty than weaker wines) this is also an example of a nearly unified alcohol tax.
- 4.10 One argument in favour of retaining different alcohol duties is that different products contain different risks of alcohol harm, and these are not always directly linked to the strength of the product. For example, if a product is cheaper to produce, the final sales price will be inherently lower than a product of the same strength which requires a very labour-intensive process. This would make it more accessible and therefore easier to abuse, independent of the amount of alcohol.

### Box 4.B: Distinguishing products by the source of their alcohol: questions

- 8 Is the current system of differentiating different alcoholic products on the source of their alcohol a fair approach?
- 9 Is there a case to remove, or add further, categories of products?
- 10 Is there a case to end the individual alcohol taxes and reconstitute them with a single, unified alcohol tax? If not, on what basis should individual alcohol taxes be retained?
- 11 Should taxation recognise the costs associated with producing different products?
- 12 What evidence is there of the differing harms associated with individual products?

## Distinguishing between different strength products

- 4.11 It is extremely common around the world for stronger products to pay more duty per unit than weaker products, i.e. for duty to increase above the proportionate increase in strength. The logic is that stronger products are more easily abused by consumers, as units of alcohol can be consumed more quickly without the need to drink large volumes of fluid. This is sometimes referred to as the “strength escalator”.
- 4.12 For this reason, in the UK system higher strength beers above 7.5% ABV are subject to a surcharge which makes them taxed more highly than their proportionate ABV. Lower strength beers pay less than half the standard rate of beer duty. This principle has historical parallels, as the original Excise Ordinance of 1643 distinguished between beers of different strengths.
- 4.13 However, as discussed in the previous Chapter, the UK system does not consistently apply this principle. Spirits products pay a flat rate at all strengths, and wine and cider products pay proportionately less duty per unit as their products get stronger, with the highest strength wines paying less duty per unit than lower strength ones.
- 4.14 A common way to ensure that products pay more duty per unit as they get stronger is to use bands. This provides a clear and simple way to know when a product is liable for increased or reduced rates of duty. However, choosing the appropriate points for these bands can be an arbitrary judgment.
- 4.15 Bands also cause large jumps in duty at specific points. For example, a 250ml 4% ABV made-wine will pay 22.9p in duty while a 4.1% ABV one will pay 31.5p. Even with beer, which is taxed in proportion to strength, there are still jumps, for example at 2.8% ABV a pint of beer will pay 13.4p in duty while at 2.9% ABV such a pint will pay 31.4p in duty.
- 4.16 The alternative to using a banded system is to levy alcohol duty using a formula-based approach. Iceland has adopted such an approach and uses a formula for wine and beer where the duty *rate* increases non-linearly with

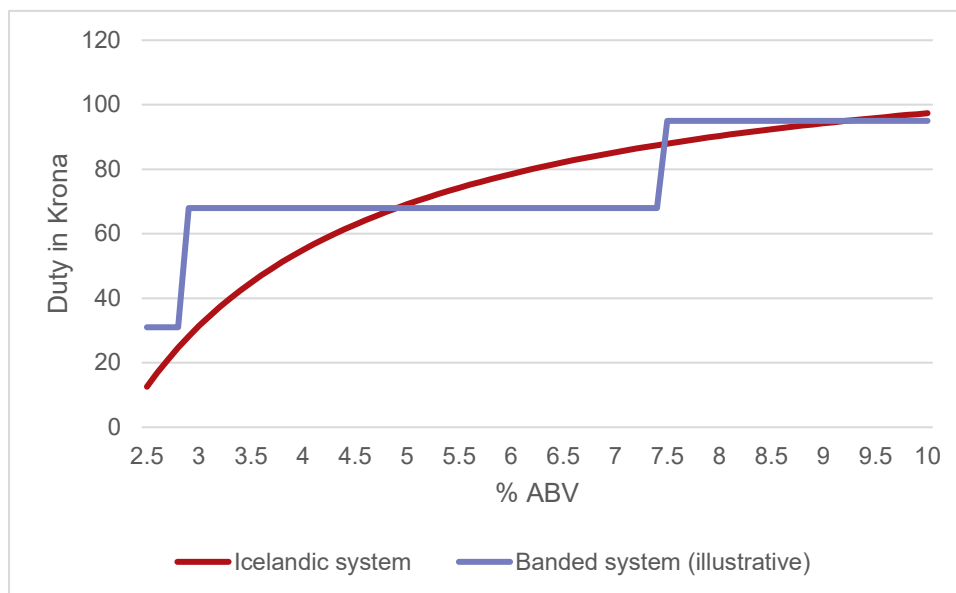
strength, paying a duty rate of 119.6 Krona per litre multiplied by the ABV minus 2.25 (drinks below 2.25% ABV are not taxed in Iceland). For example, the duty rate for a 4% ABV beer would be calculated as:  $119.6 * (4 - 2.25) = 209.3$  Krona per litre. This has the effect of increasing the duty rate per unit as products get initially stronger, but this levels off at higher strengths.

4.17 The chart below compares how this formula-based approach works to a banded system such as the one the UK has. Note, the banded system is purely illustrative and not based on any individual real-world example.

**Table 4.A: Icelandic system for beer (in Krona)**

ABV	Duty per unit	Total duty on a pint of beer
3%	31.3	53.5
4%	55.0	124.9
5%	69.1	196.3
6%	78.5	267.6
7%	85.3	339.0
8%	90.3	410.3

**Chart 4.A: Icelandic system for beer vs hypothetical banded system**



**Box 4.C: Different strength products – questions**

13 How well does the current system work in taxing products of different strengths?

- 14 Would you support a “strength escalator” system, i.e. one where products that are stronger consistently pay more duty per unit?
- 15 Can a product be more or less harmful for reasons other than the strength of the product?
- 16 How should the Government consider setting different rates of duty for higher and lower strength products?
- 17 Are there appropriate points at which products become more or less harmful, which could be used to set bands for different strength products?
- 18 What would be the effect of moving away from a banded system to a formula-based approach such as in Iceland?
- 19 Should the duty system be used to encourage producers to switch to lower strength products, or reformulate existing products?
- 20 If so, what would the best way of encouraging such practices?

## Applying a tax distinction based on the place of retail

- 4.18 The alcohol duty system does not distinguish between where a unit of alcohol is sold. The duty is paid relatively early in the supply chain – either by the manufacturer directly or when the product leaves a third-party warehouse. Therefore, a product sold in a shop or in a bar will pay the same amount of duty, although the final retail price will vary.
- 4.19 Historically most alcohol was sold in what is known as the “on-trade”, which includes pubs, restaurants, bars, hotels and nightclubs. However, in the last 20 years there has been a gradual increase in the sale of products in the “off-trade” (supermarkets and shops) for home purchase. In 2000, 47% of alcohol was purchased in the on-trade, but in 2018 that had fallen to 30%<sup>3</sup>. In 1980, 88% of beer was sold in the on-trade, but in 2014 off-trade sales overtook on-trade sales<sup>4</sup>. Prices between on and off-trade products have also significantly diverged over the last 30 years: the price of off-trade alcohol doubled over this period, while the price of on-trade alcohol almost quadrupled<sup>5</sup>.
- 4.20 There have been calls for distinctions to be made on the basis of the place of retail. For example, the Campaign for Real Ale (CAMRA) has supported the idea of charging a lower rate of duty in pubs, advantaging the on-trade<sup>6</sup>. This argument has been made on the grounds that licenced premises have higher retail prices than off-trade providers and are less likely to be harmful, while the alcohol is being drunk in a supervised, regulated location.

<sup>3</sup> Analysis by British Beer and Pub Association, sourced from HMRC, National Statistics, CGA Strategy and Nielsen

<sup>4</sup> British Beer and Pub Association, <https://beerandpub.com/statistics/uk-beer-market/>

<sup>5</sup> ONS RPI data: beer on sales, beer off sales, wine and spirits on sales, wine and spirits off sales

<sup>6</sup> [https://camra.org.uk/press\\_release/cut-tax-on-beer-sold-in-pubs-camra/](https://camra.org.uk/press_release/cut-tax-on-beer-sold-in-pubs-camra/)

Conversely, there have also been suggestions that products sold by producers at their brewery, orchard, distillery or vineyard should pay a lower rate of duty to boost tourism and support local producers, benefitting certain off-trade suppliers.

4.21 There are several methods by which distinctions could be made:

- In Australia, beer pays different duty rates depending on the size of the container (with containers over 48 litres paying less duty) and whether the container is designed to connect to a pressurised gas system. This would indirectly benefit pubs, bars etc who can make use of these systems.
- Suppliers could benefit from a duty rebate scheme. Their sales of alcoholic drinks would be recorded, and the supplier could then claim a level of relief from HMRC based on the excise duty which was charged on those products.
- Historically, the Government charged an excise duty on licences to sell or produce alcohol, separate to the fee for the licence and the excise duty on the product. These could be reintroduced and set at different levels for on-trade and off-trade suppliers, as desired.
- A reduced rate of VAT could be applied to alcoholic drinks when sold in a particular context. For example, in the EU it is possible to apply a reduced rate of VAT on alcoholic drinks sold in a hospitality setting alongside a meal.

4.22 However, there are disadvantages to introducing these distinctions. They add complexity to the duty system and risk causing unintended consequences. It also moves away from a level playing field between providers. While exact details depend on the method chosen, such reliefs can present a risk of diversion or fraud (for example, in a container-based system, if the product was repackaged later in the supply chain), which would require greater levels of compliance and enforcement activity from HMRC and additional burdens on producers. Differentials are also likely to incur a significant cost to the Exchequer, imperilling revenues that fund important public services.

#### **Box 4.D: Distinguishing on the place of retail – questions**

21 Is there a case to distinguish between different retail sources in the alcohol duty system? What would be the benefits and disadvantages of doing so?

22 If so, what would be your recommended method of doing so?

23 What would an appropriate level of a differential be?

24 What retailers should qualify for reliefs? For example, should all “on-trade” venues qualify for reliefs?

## Small producer reliefs

- 4.23 As discussed in chapter 2, the Government permits two reliefs in the duty system for small producers:
- Small Brewers Relief (SBR) – brewers producing less than 5,000 hL pay a 50% reduced rate of duty, which is tapered away as the brewer grows. As noted in Chapter 2, the Government is reviewing this relief separate to this call for evidence.
  - Small cidermakers exemption – cidermakers producing less than 70 hL are exempt from registering with HMRC for excise duty, and therefore do not pay duty on their products below this level. If they exceed this threshold, they pay duty on all their produce (including that below 70 hL).
- 4.24 Within the EU system, similar schemes to SBR are available for distillers and (from 2022) small cidermakers and vineyards. However, these are inconsistent as to the maximum size a producer can be to qualify for the relief. Distillers can apply reduced rates to producers making less than 10 hL of pure alcohol (on a 40% ABV product, this would be 25 hL of finished product). The new cidermakers relief structure allows EU countries to apply reduced rates to producers making less than 15,000 hL per year, while the new small vineyards relief structure only extends this relief to vineyards producing less than 1000 hL (except in Malta where the maximum is permitted to be 20,000 hL).
- 4.25 Outside the EU, reduced reliefs are less common. While non-EU countries (e.g. Japan, Canada and the USA) apply reduced rates to beer made by smaller producers, reliefs for wine producers are rare. Of 36 countries surveyed by the OECD, only 7 provided reduced rates for small distillers<sup>7</sup>.
- 4.26 While most countries apply reduced rates on the basis of the total production of the producer, Canada (at the Federal level) does not apply a maximum production size to its reduced duty rates: instead duty is imposed on a marginal basis, with an escalator of rates increasing with the amount of production. The first 2,000 hL produced receives a 90% discount, the next 3000 hL receives an 80% discount, the 10,000 hL after that has a 60% discount, the next 35,000hL has a 30% discount and the 25,000 hL has a 15% discount. Beyond that, all beer is taxed at the standard rate.
- 4.27 Australia instead applies reliefs on a 'cash-cap' basis to all products subject to excise duty. A producer can receive a refund of 60% of the excise duty they have paid on their products, to a maximum of \$100,000 per financial year. This covers all products except wine, so producers could claim a mix of beer and spirits duties under this relief. For wine (which is subject to an ad valorem tax), producers can claim up to a maximum of \$350,000 in relief, although producers also have to own the source product (e.g. grapes, apples) and sell the wine in small containers.
- 4.28 The evidence of long-term benefit from these reliefs is unclear. While in theory they can offset higher production costs experienced by smaller firms,

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<sup>7</sup> Consumption Tax Trends 2018: VAT/GST and Excise Rates, Trends and Policy Issues, OECD (December 2018)

business models will vary significantly between firms, and new entrants to the market can compete away the duty advantage for individual firms by passing it on to suppliers or consumers in the form of lower prices. These reliefs can give rise to claims of market distortion: as noted by one firm of economists “the artificial binary separation of producers by size necessarily creates scope for mid-size producers to be at a competitive disadvantage to both small and large producers”<sup>8</sup>.

- 4.29 In addition, many countries and sectors have seen significant growth in the number of small producers without the introduction of reliefs. For example, the number of small brewers in Spain has grown from 114 in 2012 to 395 in 2018<sup>9</sup> despite them having no reduced rate for small breweries. The number of distilleries in England, many of them small producers, has grown from 23 to 228 between 2010 and 2019 without any specific spirits duty relief<sup>10</sup>.
- 4.30 A further consideration is the treatment of imported goods. Under WTO rules, imported products are required to face the same rate of treatment as domestic produce. Only relatively small amounts of beer and cider are imported from small producers (for beer, around 1% of beer qualifying for SBR is produced by overseas brewers). For categories where imported products make up larger amounts of the proportion consumed in the UK than beer, this could mean that significant amounts of duty reliefs are applied to overseas products.

#### Box 4.E: Small producer reliefs – questions

- 25 Is there a case to extend reduced rates for small producers to other categories?
- 26 Do you think exemptions or reduced rates are the best way to support producers?
- 27 Should relief thresholds be set in reference to only the market for that product, or in reference to the whole market for alcoholic beverages?
- 28 What evidence is there that small producer reliefs for other categories would be value for money? Would the value of the relief be simply competed away by new market entrants?

## Indexing rates for inflation

- 4.31 The rates of alcohol duty are expressed in nominal terms (unlike e.g. VAT which is a percentage of the sales price). In order to protect revenues, the Government regularly increases the value of the rates to keep pace with

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<sup>8</sup> “Study analysing possible changes in the minimum rates and structures of excise duties on alcoholic beverages”, London Economics (May 2010)

<sup>9</sup> European Beer Trends – Statistics report, 2019 edition. Brewers of Europe

<sup>10</sup> Analysis of HMRC data by the Wine and Spirits Trade Association.



inflation. Increases in line with the RPI measure of inflation are now assumed in the public finances, including in the OBR's fiscal forecasts.

- 4.32 However, in some years the Government decides not to pursue uprating, for example to support consumers and producers. In some years there have been different uprating decisions, for example to uprate beer while freezing spirits. These decisions are documented in Annex B.
- 4.33 The Government normally announces its decision whether to uprate, freeze or cut duties at each Budget, to apply for the following year. While this previously took effect shortly after each Budget, in 2017 the Government moved to give a 3-month lead-in time to help manufacturers adjust.
- 4.34 In recent times, the only occasion when the Government deviated from this year-by-year principle was when it announced the alcohol duty escalator in 2008, where rates were planned to increase by 2% above inflation for four years. While this was extended at the 2010 Budget to 2014-15, this decision was cancelled for beer duty in 2012 and for the other duties the following year.
- 4.35 The Government would be interested in whether making decisions on a more consistent basis would provide greater certainty to industry and predictability to the public finances. For example, decisions could be announced for a whole Parliament at the first Budget in that Parliament, with uprating then taking automatic effect each year through legislation.
- 4.36 As mentioned, RPI is currently used as the baseline measure of inflation. However, the Government is mindful of the current shortcomings of RPI. The Government would be interested in whether another index would be appropriate to substitute in its place. Respondents may wish to note the public consultation the Government and the UK Statistics Authority (UKSA) recently held on the timing of reform to RPI methodology<sup>11</sup>. The Government and UKSA will respond to the consultation in the autumn.

#### **Box 4.F: Indexing rates for inflation – questions**

29 How well does the current system of indexing duties in line with inflation work?

30 Would a more consistent, systematic approach to indexing alcohol duties be of benefit?

31 Is there a more appropriate index to use for inflation-matching increases than RPI?

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<sup>11</sup> <https://www.gov.uk/government/consultations/a-consultation-on-the-reform-to-retail-prices-index-rpi-methodology>

# Chapter 5

## The administration of the duty system

5.1 This chapter discusses reform of the administrative elements of the duty regime, such as approvals and declarations. It also considers previous consultations that HMRC have held about these matters.

### Approvals

5.2 The legislation and policy for the current alcohol production regimes date back to 1979. In the past, businesses tended to produce one type of alcohol and each regime was introduced to serve a specific type of alcohol production. Since then, the regimes have gradually evolved, often independently, with rules added or amended to reflect EU law, or the prevailing risks and business practices with each regime.

5.3 As a result, there are different types of approvals used across the alcohol production regimes. The table below sets out the different types of approvals:

Table 5.A: Table

Production regime	Approvals needed	Tasks allowed under that approval
Beer	Registration to produce beer and registration to hold beer without payment of duty. A single application with a 'tick box' to request registrations under two legislative clauses	Produce beer and hold beer produced on the registered premises and beer produced elsewhere without payment of duty Hold imported beer without payment of duty Additional premises up to 5KM away can be registered to hold beer without payment of duty
Cider	Registration to produce cider for sale	Produce cider and hold that cider on the registered premises without payment of duty
Spirits	Licence to produce spirits	Produce spirits and hold (in the distillery warehouse) spirits produced at that

	Approval of plant and process	distillery without payment of duty
	Approval of premises as a distillery warehouse to hold spirits without payment of duty	
	Authorisation as a warehousekeeper	
Wine and Made-Wine	Licence to produce wine for sale	Produce wine and hold that wine on the licensed premises without payment of duty
Compounders and Rectifiers	Licence to rectify or compound spirits Excise warehouse approval if duty suspended spirit is used	Rectify or compound spirits

### Terms and conditions

- 5.4 The Terms and conditions attached to approvals also vary across the production regimes. Each sets out what the approval allows a business to do, what conditions HMRC can apply and the rules for revoking or cancelling approval. These variations add complexity for both businesses making multiple products and for HMRC in managing compliance.
- 5.5 For example, HMRC is able to impose conditions on registrations for beer registered premises, distillers' warehouses and distilleries where the largest still is less than 18 hectolitres. A general condition is to consider 'due diligence' that requires assessing the risk of excise duty evasion as well as any commercial and other risks when trading.

### Previous consultation

- 5.6 HMRC has previously consulted on these issues as part of a review into the administrative arrangements for alcohol in 2017/2018. Due to changing priorities this work was paused as announced at Budget 2018.

### A standard framework for approval

- 5.7 As part of that review, and following consultation with alcohol businesses, HMRC considered a standard framework for the approval of all alcohol producers.
- 5.8 This framework would be identical for all alcohol production regimes, eliminating the variations that currently exist. The terms and conditions would be consistent and equitable for all producers, clarifying what is required and expected of businesses operating within the regimes and enabling HMRC to manage compliance more effectively.
- 5.9 We would also welcome your views on potentially moving to a single alcohol approval which would allow a business to produce any type of alcohol.

### Box 5.A: Approvals – questions

32 What are your views on a standard framework for approval of alcohol production regimes? What would be the benefits or disadvantages?

33 What are your views on a single approval to produce any type of alcohol? What would be the benefits or disadvantages?

## Declarations and payments

5.10 As with approvals, there are different rules for declarations and payments of duty across the production regimes. These differ in terms of the method for making an alcohol duty return to HMRC, the length of accounting period and the payment date; all depending on the category of alcohol produced. The table below sets out these differences.

**Table 5.B: Comparison of declaration and payment dates**

Production regime	Return	Accounting period	Return date	Payment date
Beer	EX46	Calendar month and option of any other agreed period	15 <sup>th</sup> of the following month	25 <sup>th</sup> of the following month
Cider and perry	EX606	Calendar month and option of 4 or 5 weeks	15 <sup>th</sup> of the following accounting period	15 <sup>th</sup> of the following accounting period
Spirits	W5 or W5D	Daily or Calendar month	To be submitted before goods leave the warehouse	No later than the day following removal from warehouse or Under a scheduling agreement, payment is taken on 29 <sup>th</sup> of the following month
Wine and Made-Wine	EX606	Calendar month and option of 4 or 5 weeks	The return is to be submitted by the 15 <sup>th</sup> of	Payment is to be made by 15 <sup>th</sup> of the month

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month	following the
following the	accounting
accounting	period
period	

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### Previous consultations

5.11 Declarations and payments were again considered as part of the previous review of administrative arrangements. Following consultation, our aim was to create a single policy and process for declarations and payment that covered all production regimes. This included:

- a single return to account for all duties
- a standard accounting period across all regimes
- standardisation of the dates for the submission of returns and payment of duty

#### Box 5.B: Declarations and payments – question

34 What are your views on a single policy and process for duty payment across all the alcohol production regimes? Please include details of any benefits or disadvantages.

### Excise modernisation and simplification

5.12 Alcohol duty forms part of the wider regime for managing and controlling goods that are subject to excise duties. Given the UK's exit from the European Union and the potential opportunities this presents, HMRC is also consulting on a programme of excise modernisation and simplification to understand how existing processes or procedures could be improved so they better support UK business. HMRC is currently consulting industry representative groups in a series of 'listening' events covering documentation, forms (including applications and approvals), registration, duty free/shops stores and guarantees.

5.13 This review will be closely coordinated with that programme. HMRC will ensure that all responses from both reviews are taken into consideration when determining the Government's policy to these issues.

### Digitisation

5.14 HMRC has an ongoing digital strategy to transform the way businesses interact with HMRC using digital services. As this work progresses there will be more opportunities to move processes for applying for and gaining approval and declaring and paying tax for alcohol production onto a digital platform.

## Avoidance and evasion

- 5.15 The alcohol tax gap is estimated at 7.5% (£900 million) in 2018-19, of which £600m is alcohol duty and £300 million is VAT. It is the lowest since 2011-12.
- 5.16 Tackling alcohol fraud is a priority for HMRC. Since publication of the HMRC Alcohol Strategy in 2010 to the end of 2018-19, 77 million litres of alcohol with a duty value in excess of £155 million have been seized and the revenue protected through compliance activity has increased to over £1 billion a year.
- 5.17 The Alcohol Strategy was refreshed in March 2016 to focus on promoting good compliance, preventing tax losses and responding to those who cheat. The strategy is designed to tackle all forms of fraud throughout the supply chain, working with other enforcement agencies and industry.
- 5.18 Measures as part of the strategy to tackle alcohol duty fraud include:
- Introduction of the Alcohol Wholesaler Registration Scheme which requires businesses to meet rigorous standards to receive approval from HMRC in order to trade;
  - Sharing data with alcohol producers to restrict access by fraudsters to UK-sensitive brands through the Tackling Alcohol Fraud at Source project;
  - Introduction of a 'due diligence' condition requiring businesses to consider the risk of excise duty evasion in their supply chains; and,
  - A national Alcohol Intelligence Co-ordination Centre that delivers real-time intelligence to focus maximum impact on the illicit alcohol trade, and a mobile taskforce to respond to alcohol fraud.

### Box 5.C: Avoidance and evasion – questions

35 How effective do you think the current systems of controls are at tackling avoidance and evasion?

36 What more could be done to reduce the alcohol tax gap?

# Chapter 6

## Summary of questions

### Questions in this call for evidence

#### The overall duty system

- 1 Overall, how effectively does the current set of individual duties work in meeting the Government's aims of raising revenue and protecting public health?
- 2 Do you have any general comments about the current system of alcohol duties, and how it could be improved? In particular, if you are a producer, we would welcome information on your experiences of the duty system.
- 3 Are there any structural changes you anticipate taking place in the alcohol industry that you believe the duty regime should reflect?

#### Comparisons between the duties

- 4 Overall, how well do the different duties work when combined together as a system?
- 5 Do the differences and inconsistencies highlighted above cause real-world issues for producers and for public health, or are these more theoretical concerns? In particular, if you are a producer, have differences in the duties affected your business decisions?

#### Methods of taxation

- 6 Is there a case to move to a standard method of taxation?
- 7 In particular, should the UK replicate the example of other countries and move wine and cider duties to be taxed in proportion to the strength of the final product, i.e. converted to a specific basis?

#### Distinguishing products by the source of their alcohol

- 8 Is the current system of differentiating different alcoholic products on the source of their alcohol a fair approach?
- 9 Is there a case to remove, or add further, categories of products?

- 10 Is there a case to end the individual alcohol taxes and reconstitute them with a single, unified alcohol tax? If not, on what basis should individual alcohol taxes be retained?
- 11 Should taxation recognise the costs associated with producing different products?
- 12 What evidence is there of the differing harms associated with individual products?

### **Distinguishing products by strength**

- 13 How well does the current system work in taxing products of different strengths?
- 14 Would you support a “strength escalator” system, i.e. one where products that are stronger consistently pay more duty per unit?
- 15 Can a product be more or less harmful for reasons other than the strength of the product?
- 16 How should the Government consider setting different rates of duty for higher and lower strength products?
- 17 Are there appropriate points at which products become more or less harmful, which could be used to set bands for different strength products?
- 18 What would be the effect of moving away from a banded system to a formula-based approach such as in Iceland?
- 19 Should the duty system be used to encourage producers to switch to lower strength products, or reformulate existing products?
- 20 If so, what would the best way of encouraging such practices?

### **Distinguishing based on the place of retail**

- 21 Is there a case to distinguish between different retail sources in the alcohol duty system? What would be the benefits and disadvantages of doing so?
- 22 If so, what would be your recommended method of doing so?
- 23 What would an appropriate level of a differential be?
- 24 What retailers should qualify for reliefs? For example, should all “on-trade” venues qualify for reliefs?

### **Small producers**

- 25 Is there a case to extend reduced rates for small producers to other categories?
- 26 Do you think exemptions or reduced rates are the best way to support producers?



27 Should relief thresholds be set in reference to only the market for that product, or in reference to the whole market for alcoholic beverages?

28 What evidence is there that small producer reliefs for other categories would be value for money? Would the value of the relief be simply competed away by new market entrants?

### **Indexing rates for inflation**

29 How well does the current system of indexing duties in line with inflation work?

30 Would a more consistent, systematic approach to indexing alcohol duties be of benefit?

31 Is there a more appropriate index to use for inflation-matching increases than RPI

### **Approvals**

32 What are your views on a standard framework for approval of alcohol production regimes? What would be the benefits or disadvantages?

33 What are your views on a single approval to produce any type of alcohol? What would be the benefits or disadvantages?

### **Declarations and payments**

34 What are your views on a single policy and process for duty payment across all the alcohol production regimes? Please include details of any benefits or disadvantages.

### **Avoidance and evasion**

35 How effective do you think the current systems of controls are at tackling avoidance and evasion?

36 What more could be done to reduce the alcohol tax gap?

# Annex A

## International comparisons

### EU countries

- A.1 Excise duties are harmonised by several items of EU legislation, principally the Alcohol Structures Directive (92/83/EEC) and the Alcohol Rates Directive (92/84/EEC). Given the wide variety of products sold in the EU, and the historic differences between member states, the Directives afford some flexibilities to member states in setting their duty structures.
- A.2 Although historically the EU was interested in setting a standard rate on products across the Union<sup>1</sup>, instead of setting common rates for each type of product, the Directives prescribe a minimum rate (albeit in the case of wine, the minimum is zero) and a fixed structure for each duty. EU legislation sets out a five-category framework of duties: wine, beer, spirits, intermediate products (e.g. fortified wines) and other fermented beverages.
- A.3 Beer is required to be taxed on a specific basis in reference to the ABV of the product, at a minimum rate of €1.87 per hL per degree of alcohol (an alternative system based on degrees Plato is also available).
- A.4 Wine from grapes is required to be taxed on a unitary basis. Member states are permitted to charge different rates for sparkling wines. Reduced rates can be charged for products below 8.5% ABV, but these must be taxed on a unitary basis. There is no minimum rate and so EU countries are free to not apply alcohol duty to wine if they wish.
- A.5 Other fermented beverages (e.g. cider, mead) are required to be taxed on a unitary basis, although member states are permitted to apply reduced rates to individual products if they do not exceed 8.5% ABV. There is no minimum rate and so EU countries are free to not apply alcohol duty to these products if they wish.
- A.6 Intermediate products are also required to be taxed on a unitary basis. The minimum rate is €45 per hL. Member states can apply a reduced rate of not less than 60% of the standard rate to products not exceeding 15% ABV.
- A.7 Spirits are required to be taxed on a specific basis at a single flat rate. The minimum rate is €5.50 per litre of pure alcohol.

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<sup>1</sup> The Commission put forward in 1987 a proposal for common rates of excise duty on alcoholic drinks, see COM(87) 328 final, OJ C 250 18.9.1987

## Norway

- A.8** Norway operates a relatively simple system of duties. Beer, wine and cider are taxed in a combined way, although the method of taxation switches from a unitary to a specific basis at 4.7% ABV.
- A.9** Norway also operates a reduced rate scheme for small producers. Breweries making less than 500,000 litres can benefit from this reduced rate. Discounts start at 20% on the first 50,000 litres and are gradually reduced to zero at 200,000 litres. However, only beers in the strength category of 3.7-4.7% ABV are eligible for the reduced rate, while production is calculated on beers of all strengths produced by that brewery. In 2019, Norway extended its relief for small breweries to also cover cider and wines of the same strength.
- A.10** Products above 0.7% ABV are taxed as follows:

**Table A.1: Norwegian alcohol duties (in Krone)**

Band	Beer	Wine	Cider	Spirits
Above 0.7% to 2.7% ABV	3.51 per L	3.51 per L	3.51 per L	7.84 per % L
Above 2.7% to 3.7% ABV	13.18 per L	13.18 per L	13.18 per L	7.84 per % L
Above 3.7% to 4.7% ABV	22.83 per L	22.83 per L	22.83 per L	7.84 per % L
Above 4.7% to 22% ABV	5.11 per % L	5.11 per % L	5.11 per % L	7.84 per % L
Above 22% ABV				7.84 per % L

Source: <https://www.skatteetaten.no/en/business-and-organisation/vat-and-duties/excise-duties/about-the-excise-duties/alcoholic-beverage-tax/>

## Iceland

- A.11** Iceland operates a domestic monopoly on the sale of alcohol. Products in excess of 2.25% ABV are taxable. Iceland also operates a relatively simple system of alcohol taxation, with three categories for beer, wine (including cider) and spirits, all on a specific basis. There is no small producer relief scheme.
- A.12** Beer is taxed according to a non-linear formula, paying 125.65 Krona per centilitre of alcohol in excess of 2.25 centilitres<sup>2</sup>. For example, a 4% ABV beer will pay 219.9 Krona per litre, because a litre of 4% ABV will contain 4 centilitres of alcohol, so  $125.65 * (4 - 2.25) = 219.9$ .
- A.13** Wine (and cider) also operate on a formula basis, but pay a slightly different rate of 114.45 Krona per centilitre of alcohol in excess of 2.25 centilitres.
- A.14** Spirits are taxed at a flat rate of 154.9 Krona per centilitre of alcohol.

<sup>2</sup> <https://www.althingi.is/lagas/nuna/1995096.html>

## New Zealand

- A.15 New Zealand has separate regimes for beer, wine, cider and spirits<sup>3</sup>. It does not have a small producer relief scheme. Products above 1.15% ABV are taxable.
- A.16 Beer is taxed in two ways. Low strength beer is taxed on a unitary basis, while stronger beers are taxed on a specific basis:
- More than 1.15% ABV to 2.5% ABV: \$0.46 per litre
  - More than 2.5% ABV: \$30.624 per litre of alcohol
- A.17 Fruit and vegetable wines (including sparkling wines) are taxed on a mix of a specific and unitary basis:
- Up to 14% ABV: \$3.06 per litre
  - Above 14%: \$55.77 per litre of alcohol (spirits equivalent)
- A.18 Other fermented beverages such as cider and mead (and spirits-based RTDs) have a more complex structure, mirroring beer and wine at different points:
- More than 1.15% ABV to 2.5% ABV: \$0.46 per litre (beer equivalent)
  - More than 2.5% ABV to 6% ABV: \$30.624 per litre of alcohol (beer equivalent)
  - More than 6% to 9% ABV: \$2.45 per litre
  - More than 9% ABV to 14% ABV: \$3.06 per litre (wine equivalent)
  - Above 14%: \$55.77 per litre of alcohol (spirits equivalent)
- A.19 A slightly reduced rate, following the cider structure, applies for “rectified spirits of wine”.
- A.20 Spirits are taxed at flat rate of \$55.77 per litre of alcohol.

## Singapore

- A.21 Singapore has one of the simplest alcohol duty systems, imposing duty on a specific basis in two bands<sup>4</sup>. Most alcoholic products, such as wine (including sparkling wine) and spirits, qualify for the standard rate of \$88 per litre of alcohol.
- A.22 Some lower strength products such as beer and cider qualify for a reduced rate of \$60 per litre of alcohol. However currently Singapore also imposes a customs duty of \$16 per litre of alcohol, so the combined rate is \$76 per litre of alcohol for imported products.

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<sup>3</sup> <https://www.customs.govt.nz/globalassets/documents/tariff-documents/working-tariff-document-2018/excise-duties-August.pdf>

<sup>4</sup> <https://www.customs.gov.sg/businesses/valuation-duties-taxes-fees/duties-and-dutiable-goods/list-of-dutiable-goods>

## Australia

A.23 Australia charges alcohol duty on beer and spirits (which includes any product exceeding 10% ABV) on a specific basis<sup>5</sup>. Wine is not subject to alcohol duty and instead pays an ad valorem tax known as “wine equalisation tax”, which is 29% of the wholesale value of the wine.

A.24 Beer is taxed as follows:

**Table A.2: Australian beer rates – \$ per litre of alcohol**

Strength	Container less than 8 L or 8-48L and unpressurised	Container exceeding 48 L or 8-48L and pressurised	Produced for non-commercial purposes with commercial facilities
Up to 3% ABV	44.05	8.81	3.10
Above 3% to 3.5% ABV	51.31	27.59	3.57
Above 3.5% ABV	51.31	36.14	3.57

A.25 Spirits and other beverages exceeding 10% ABV are taxed at \$86.90 per litre of alcohol. However, brandy is entitled to a slightly reduced rate of \$81.16 per litre of alcohol.

<sup>5</sup> <https://www.ato.gov.au/Business/Excise-and-excise-equivalent-goods/Alcohol-excise/Excise-rates-for-alcohol/>

## Annex B

# Historical changes to the duty regime

Table B.1: Duty uprating decisions

Year	Beer	Wine	Cider	Spirits	Notes
1975	2p/pint increase	24p/bottle increase	Untaxed	RPI + 20% increase	
1976	1p/pint increase	12p/bottle increase	Cider duty introduced	12% increase	
1977	10% increase	10% increase	10% increase	10% increase	
1978	Freeze	Freeze	Freeze	Freeze	
1979	Freeze	Freeze	Freeze	Freeze	VAT increased from 8% to 15%
1980	2p/pint increase	RPI increase	RPI increase	RPI increase	
1981	4p/pint increase	RPI increase	RPI increase	Below RPI increase	
1982	RPI increase	RPI increase	RPI increase	Below RPI increase	
1983	RPI increase	RPI increase	RPI + 10% increase	Below RPI increase	
1984	2p/pint increase	20% cut for still wines	50% increase	Below RPI increase	
1985	Frozen	RPI + 3% increase	RPI + 5% increase	Below RPI increase	
1986	Frozen	Frozen	Frozen	Frozen	
1987	Frozen	Frozen	Frozen	Frozen	
1988	RPI increase	RPI increase	RPI increase	Frozen	
1989	Frozen	Frozen	Frozen	Frozen	
1990	RPI increase	RPI increase	RPI increase	10% increase	
1991	RPI increase	RPI increase	RPI increase	RPI increase	

1992	RPI increase	RPI increase	RPI increase	RPI increase	
1993	5% increase	5% increase	5% increase	Frozen	
1994	4% increase	Still wine increased by 4%, sparkling wine cut	4% increase	4% increase	
1995	Frozen	Frozen	Frozen	4% cut	New cider band introduced
1996	Frozen	Multiple changes made	Frozen	4% cut	
1997	RPI increase	RPI increase	RPI increase	RPI increase	
1998	RPI increase	RPI increase	RPI increase	Frozen	
1999	Frozen	Frozen	Frozen	Frozen	
2000	RPI increase	RPI increase	RPI increase	Frozen	
2001	Frozen	Frozen	Frozen	Frozen	
2002	Frozen	Frozen	2% cut	Frozen	Reclassification of RTD drinks
2003	RPI increase	Still wine increased, sparkling frozen	Frozen	Frozen	
2004	RPI increase	Still wine increased, sparkling frozen	Frozen	Frozen	
2005	RPI increase	Still wine increased, sparkling frozen	Frozen	Frozen	
2006	RPI increase	Still wine increased, sparkling frozen	Frozen	Frozen	
2007	RPI increase	Still wine increased, sparkling frozen	Frozen	Frozen	
2008	6% increase	6% increase	6% increase	6% increase	

2008 Nov	8% increase	8% increase	8% increase	4% increase	Increase via statutory instrument, intended to offset VAT changes
2009	RPI + 2% increase	RPI + 2% increase	RPI + 2% increase	RPI + 2% increase	
2010 March	RPI + 2% increase	RPI + 2% increase	RPI + 10% increase	RPI + 2% increase	Cider rise decreased to RPI+2% in June 2010
2011	RPI + 2% increase	RPI + 2% increase	RPI + 2% increase	RPI + 2% increase	
2012	RPI + 2% increase	RPI + 2% increase	RPI + 2% increase	RPI + 2% increase	
2013	1p/pint cut	RPI + 2% increase	RPI + 2% increase	RPI + 2% increase	
2014	1p/pint cut	RPI increase	Frozen	Frozen	
2015	1p/pint cut	Frozen	2% cut	2% cut	
2016	Frozen	RPI increase	Frozen	Frozen	
2017 Spring	RPI increase	RPI increase	RPI increase	RPI increase	
2017 Autumn	Frozen	Frozen	Frozen	Frozen	
2018	Frozen	RPI increase	Frozen	Frozen	
2020	Frozen	Frozen	Frozen	Frozen	

*Source: HM Treasury analysis, HMRC, Hansard, Legislation.gov.uk*





## HM Treasury contacts

This document can be downloaded from [www.gov.uk](http://www.gov.uk)

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Tel: 020 7270 5000

Email: [public.enquiries@hmtreasury.gov.uk](mailto:public.enquiries@hmtreasury.gov.uk)