



HM Treasury



HM Revenue
& Customs

The new alcohol duty system: Consultation

October 2021

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Foreword

Since we started our alcohol duty review in March 2020, we have been listening carefully to the views of stakeholders. I am extremely grateful to the numerous respondents who have diligently and patiently engaged with the review, particularly since the launch of our call for evidence last October.

The call for evidence has highlighted numerous problems with the way we currently tax alcohol. As industry members, public health groups and economists have all set out, there is an urgent need to undertake reform.

I believe that we can – and must – significantly improve on the current system. That way, we can better achieve our objectives as a government of simplifying the tax system, reducing burdens, improving public health, spurring innovation, and being fair to producers – while at the same time also being fiscally responsible.

We can also take the opportunity to diverge from the EU laws that we have inherited from our time as a member state, which are incoherent. Many of the reforms detailed in this document were widely supported by other member states, but lacked the unanimity required to be turned into EU law. We can now take advantage of the flexibility we have as an independent country to implement these reforms and introduce a system better suited to our national priorities.

For this reason we are today setting out our proposals to reshape and reform the alcohol duty system for the long-term.

The system we are setting out today represents a pragmatic balance between the social, economic and fiscal considerations that affect alcohol duty. It will be simpler to use, fairer to all producers, clearer and more consistent. But equally, while it is based on logical principles, it is not dogmatic.

We will act for the first time to recognise the important role played by pubs and other on-trade venues in our communities, by reducing duty on draught products sold exclusively in these places. It is right that we acknowledge in the duty system that prices and consumer behaviours in the on-trade are different from the off-trade.

I believe the proposals we are announcing today will be good for producers, pubs and public health alike. We will seize the opportunity to cut red tape, simplify duty enormously and relieve the burden of taxation on products that have long been over-taxed. This will help revitalise our hospitality sector and allow it to open a new chapter after COVID, while providing producers with a strong foundation on which to grow and expand.

Today we are responding to the call for evidence by setting out the ways in which we intend to improve the alcohol duty system, both structurally and administratively. In doing so, we are also starting a consultation on these reforms, so that stakeholders can give their views on our proposals. Next year, we will respond to this consultation to set out our final plans. We will also consult on the necessary legislation and underpinning technical details next summer.

I look forward to your responses.

A handwritten signature in blue ink, appearing to read 'Helen Whately', with a stylized flourish at the end.

Helen Whately MP
Exchequer Secretary to the Treasury

Chapter 1

Introduction

- 1.1 Alcohol duty is a long-standing system of taxes, with its origins in the 1643 Excise Ordinance levied by Parliament during the English Civil Wars. Today, it is composed of five individual taxes: beer duty, spirits duty, cider duty, wine duty and made-wine duty¹. These duties collectively raise over £12 billion each year, providing important revenue to fund public services. At the same time, they also help address the harms caused to society and public health by excessive or irresponsible drinking.
- 1.2 At the 2020 Budget, the Chancellor announced that the Government would take forward a review of alcohol duty. Given that alcohol duty was harmonised under EU law, the Government saw an opportunity to reconsider the way that the duty system worked after the UK left the EU.
- 1.3 Last October, a call for evidence was launched which sought the views of stakeholders on how the system could be reformed. This closed in November 2020 with 106 responses. The evidence provided by stakeholders was extremely useful and the Government is grateful for the time and effort respondents put into their responses. In parallel to the call for evidence, the Government also undertook a series of roundtables with groups of stakeholders, including public health groups, trade associations and economists. Annex A provides a full list of respondents and the meetings held during the call for evidence period.
- 1.4 The call for evidence document set out three objectives for the review:
 - 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.
- 1.5 In conducting its review, the Government has also aimed to support public health, boost product innovation, and ensure the duty system reflects modern drinking practices.
- 1.6 Fundamentally, the Government regards the current system as in need of major reform. The current system is too complex, burdensome, and inconsistent. Historical anomalies pervade throughout. It stifles product

¹ Made-wine duty incorporates other fermented beverages that do not fit into the other categories, such as mead and fruit wines.

innovation. Yet it allows manufacturers to exploit loopholes with cheap, high-strength products, undermining public health goals.

- 1.7 This document therefore sets out how the Government intends to reform the alcohol duty system to meet the objectives of the review and be fit for purpose over the long-term.
- 1.8 As explained in the call for evidence, these reforms are not intended to significantly adjust the amount of revenue raised from alcohol duty, which is a matter for the Chancellor to consider through the Budget process. Estimates published at Autumn Budget 2021 suggest that the reforms will slightly reduce overall duty revenues.

Responding to the consultation

- 1.9 Along with the Government's response to the call for evidence held last year, this document also includes a consultation, both on the overall proposals set out here and some specific points of policy where the Government would appreciate further input.
- 1.10 The Government welcomes contributions from any individual or organisation interested in alcohol duty reform. This includes but is not limited to taxpayers, industry bodies and public health groups.
- 1.11 This consultation will run for three months and will close on 23:59 on 30 January 2022. Responses should be submitted electronically to HMTVATandExcisePolicy@hmtreasury.gov.uk before the closing date, using the provided response template published alongside this consultation on the GOV.UK website. The Government is not able to consider responses that are submitted in any other way.
- 1.12 This is a joint consultation between HM Treasury and HM Revenue and Customs (HMRC). HM Treasury are leading on the new structure of duty discussed in chapter 4, while HMRC are leading on the administrative regime for alcohol discussed in chapter 5. The lead official for HM Treasury is Charles Barry, and the lead official for HMRC is Catherine Ayres. Both can be contacted via the email address above.
- 1.13 Annex C sets out the data protection notice for this consultation.

Northern Ireland

- 1.14 As set out in the call for evidence, the Government has been willing to consider changes to the alcohol duty regime that would diverge from EU law. Many of the proposals set out in this document would do so, as they depart from the EU Directive governing the structure of alcohol duty.
- 1.15 However, the Government is aware that under Article 8 of the Northern Ireland Protocol of the Withdrawal Agreement, this Directive and other EU legislation continue to apply in Northern Ireland. Accordingly, the Government has announced in its command paper of 21 July 2021 that it is seeking a more flexible settlement regarding excise laws applicable in Northern Ireland.
- 1.16 The Government will continue to discuss the application of these reforms to Northern Ireland with the EU during the consultation period of the review.

Chapter 2

The call for evidence

- 2.1 This chapter summarises the contributions made by respondents to the call for evidence. A full list of the call for evidence questions can be found in Annex B.
- 2.2 In parallel to the responses received, the Treasury and HMRC also discussed the call for evidence with other Government departments, interested businesses and trade bodies, public health groups and economists. Further details can be found in Annex A.

The overall duty system (Questions 1-5)

- 2.3 When assessed against its objectives of raising revenue and protecting public health, most respondents said that the current system did not function well.

Excessively inconsistent and unfair between categories

- 2.4 Generally, respondents felt there were too many inconsistencies between the different duties. From a public health perspective, it was argued that taxing drinks differently depending on strength or volume led drinks associated with high levels of harm (e.g. 'white' cider) to be sold cheaply and in large quantities. One respondent commented:

The fact that cider and wine are taxed by volume of liquid rather than alcohol content means that stronger drinks within the same duty band are taxed at exactly the same rate per litre and so are charged a lower rate of duty per unit. This creates a perverse incentive for producers to increase the strength of their products.

- 2.5 Similarly, industry members stressed that inconsistencies between different categories meant the current system did not support growth of certain industries and was generally unfair. In general, producers tended to favour reductions in duty for their own industry relative to other categories:
- Distillers and wine makers argued that beer and cider continued to be taxed more favourably than their products, and that the higher duty rate on spirits and sparkling wine unduly penalised both industries.
 - Respondents from the beer industry made a point of the current system being unfair. International examples, such as Spain, were provided to demonstrate that in other countries, beer is taxed at a much lower rate relative to spirits than it is in the UK. Brewers raised concerns over the difference in duty between beer and wine/spirits, which they argued had narrowed significantly over the long-term, posing challenges to the domestic beer industry. One stated:

The changes in the duty system have been beneficial to largely imported (99%) products such as wine and stronger distilled products – to the detriment of lower-strength, largely domestic products – and in particular beer. The ratio per unit of alcohol at the end of the 1970s between beer, wine and spirits was 1 : 2 : 4. In other words, imported wines paid double the beer duty unit rate and distilled spirits 4 times more. The rate today stands at 1 : 1.2 : 1.5.

- 2.6 Producers also highlighted that this distorted their business decision-making. One industry group stated:

The differences and inconsistencies have distorted the UK market and have had an impact on producers. Members report that the current duty rates have forced producers to revisit the formulations for new products, which in turn has had unintended effects, such as rendering a product too costly for the intended market or compromising overall quality.

Misaligned with public health goals

- 2.7 Respondents highlighted a number of issues for public health, which they attributed at least in part to the current duty system. One public health professional commented:

Many of those patients that we deal with, especially those who suffer the most severe alcohol-related physical harm, consume strong 7.5% cider – the cheapest products currently available (per unit of alcohol). Clinical experience demonstrates that the lower price paid per unit, the more units are consumed. And the cheapness of the products is often given as the reason for a beverage choice.

- 2.8 Another commented:

Cider and fortified wines, as well as spirits, account for a larger proportion of alcohol consumed by people on lower incomes. Reforming the duty rates on these drinks therefore would provide an opportunity to reduce health inequalities, delivering a manifesto commitment for the government.

- 2.9 Public health and economic groups also argued that revenue raised by the current duty system did not equate to the cost of alcohol-related harm.

- 2.10 Producers also recognised this issue with the regime. One stated:

Using taxation strategies to encourage people to choose lower alcohol strength choices can reduce alcohol-related harm, and the system needs to recognise strength and the production and consumption characteristics of different products.

Anomalous and arbitrary

- 2.11 A number of respondents highlighted specific anomalies that also impeded growth and promoted inefficiency. Larger cider makers felt that the duty differential between flavoured and non-flavoured cider impeded innovation in the market. One stated:

The difference in duties absolutely affects our business decisions. For example – we make fruit flavoured cider at 4% ABV. For a 500ml bottle the current tax is £0.4584. If we changed the liquid to a fruit flavoured beer at 4% ABV, the tax would become £0.3816 (20% less). This distortion is vexing.

- 2.12 However, craft and small cider makers were generally not in agreement with this and supported the higher rate of duty for flavoured cider makers, who they perceived as having lower production costs.
- 2.13 There was a consensus among all cider makers that the higher tax on sparkling cider was of detriment to the industry, particularly small producers. One commented:

Sparkling cider makers also suffer from the anomalous situation where as soon as their drink becomes 5.6% rather than 5.5%, the duty owed increases sevenfold. This duty band is here despite there being no evidence that sparkling alcohol is any more harmful than any other form of alcohol.

Potential strengths of the current system

- 2.14 However, there were some strengths in the current system that respondents highlighted. Respondents from the beer industry argued that by having different banded strengths for beer, the duty system encouraged innovation of lower strength products. Cider makers also supported the separate category for cider, arguing it enabled lower strength ciders to be taxed less than wine and spirits which they perceived to support the Government's public health aims. Many cidemakers feared that if the duty differential between cider and beer narrowed, cider sales could fall.
- 2.15 Furthermore, some industry members within the beer and cider sectors felt that by having different rates for wine, cider, spirits and beer, the duty system supported industries with higher production costs and levels of employment. Some also noted that reliefs such as the small cidemakers exemption and Small Brewers Relief (SBR) scheme helped support key parts of the industry.

An opportunity for reform

- 2.16 Overall, respondents welcomed the review as an opportunity to deliver sustainable long-term reform. Respondents highlighted a number of structural changes that they felt the duty regime should reflect, such as the growth of the no/low alcohol sector, the move to 'drinking less but better' and increased prevalence of drinking at home rather than in a pub or bar.

Methods of taxation (Questions 6-7)

- 2.17 The call for evidence posed the possibility of moving to a standard method of taxation. In particular it asked about adopting the 'specific basis' for wine and cider so they would be taxed proportionate to their ABV.
- 2.18 Many respondents supported this proposal. Public health groups felt it would prevent strong drinks being sold cheaply, while incentivising the creation of lower strength products. Producers also felt using a standard

method of taxation would help to address inconsistencies and provide a more level playing field between products. One respondent commented:

Moving to a more equalised system, where duty is calculated based on alcohol content (such as per unit or litre of pure alcohol for example) would fundamentally remove the discrimination in the current system, would reflect the Chief Medical Officers' (CMO) guidance on safe levels of drinking which doesn't distinguish between types of alcohol, and would result in a simpler, more rational system.

- 2.19 Economic groups argued that the specific basis of taxation was commonly used in developed economies around the world. It provided an effective means of collecting tax revenue, whilst safeguarding the interests of consumers and producers. They also noted it was supported by the International Monetary Fund (IMF) and the World Health Organisation (WHO).
- 2.20 However, some respondents expressed reservations. Respondents from beer and cider businesses raised concerns that this could fail to take account of different characteristics of products, such as production cost, place of consumption, or employment contribution to the UK. Subsequently, many argued this would favour cheap, strong drinks sold predominantly in the off trade such as vodka.
- 2.21 Some representatives from the wine industry also worried that this would interfere with business decision-making, as for practical and regulatory reasons wine makers were limited in their ability to regulate the alcohol content of their products. One said:
- The final alcohol content of wine is largely dictated by grape sugar content, which is dependent on the hours of sun received when growing and cannot be controlled exactly. This makes it impossible for wine makers to hit a consistent ABV.
- 2.22 For this reason, some wine producers felt that wine between 8.5-15% ABV should be taxed a single harmonised rate of 12% ABV, while alcohol below 8.5% should be taxed using a specific method.
- 2.23 Craft cider-makers felt that moving to a standard method of taxation would be unfair detriment to small and traditional cider makers who use 100% apple juice, and in turn produce higher-strength ciders.

Distinguishing products by the source of their alcohol (Questions 8-12)

- 2.24 Respondents had mixed opinions about whether to distinguish products by their source. While public health groups, economists and some industry members (predominantly distillers) argued alcohol should be taxed solely according to ethanol content, other industry members felt the duty system should take into account the specific characteristics of different products.
- 2.25 Among those who supporting taxing solely according to ethanol content, many felt distinguishing products by their source would contradict the review's objective of simplification and fail to resolve inconsistencies of the

current system. There were also concerns that this would perpetuate additional administrative burdens.

- 2.26 Some businesses and trade associations argued that continuing to tax products based on their source was unfair and would compound distortions in the market. One respondent stated:

The current regime favours what it believes to be “good” alcohol and penalises others, leading to the unwieldy and complex structure which we are now having to navigate. However, this is not based either on risk of harm, nor on evidence of contribution to jobs or the UK economy.

- 2.27 Distillers also argued that a system of alcohol duty based on categorising broad segments of products based on their perceived level of production cost would be unfair, because there would be variation within the category that the tax system could not reflect. One respondent said:

Long-matured scotch whiskies are probably the most expensive single product to produce as they are warehoused for upwards of two decades and properly accounting for their cost in current terms is challenging; while the cost of producing pink gin must also include significant development cost and the marketing and brand spend associated with developing the category.

- 2.28 By contrast, some respondents (predominantly within the beer and cider industries) felt that source of alcohol should be considered. The main reason provided was that lower strength alcohols (i.e. beer and cider) tended to have higher production costs and should be subject to lower duty. One respondent stated:

A one size fits all approach will only favour the cheapest source of fermentable sugars at the expense of all others.

- 2.29 Similar arguments were advanced by the beer, cider and wine industries against moving to a single, unified tax. One brewer commented:

By having the freedom to tax individual categories accordingly, the most fair and accurate tax burden can be placed on individual categories.

- 2.30 However, some respondents (particularly economics groups) opposed this, arguing that there was no logic to link the tax to the cost base. Many felt the duty system should not be used as a tool to subsidise or offset the production costs of one category over another.

- 2.31 A number of respondents also argued that the system should consider cultural and historic factors. One commented:

To group all drinks under the title “alcohol” seems simplistic and wrong – it ignores centuries of cultural context and customer behaviour.

- 2.32 Public health groups argued that because problem drinkers consume high volumes of cheap, strong alcohol, reform of the duty system should aim to eliminate inconsistencies that enable certain drinks of the same strength to be taxed differently, regardless of production costs.

Adding or removing further categories of products

- 2.33 Most respondents felt that adding further categories of product would contradict the review's objective of simplification. However, many did support the proposal to remove certain categories.
- 2.34 Respondents from the wine industry strongly supported removing the duty differential between still and sparkling wine. They argued that the current differential had little evidence to support it and was detrimental to UK sparkling wine producers.
- 2.35 Several cider makers advocated for the duty differential between flavoured and non-flavoured cider to be removed.
- 2.36 A small number of cider makers proposed adding a full juice category to apply to seasonal producers, which they argued could increase demand for UK apples and support rural employment. They also felt that taxing traditional seasonal cider at a lower rate than larger scale cider could help to address public health challenges associated with cheap white ciders and support small producers.

Evidence of harm from different products (Questions 12 and 15)

- 2.37 Public health groups noted alcohol harms vary between products. One commented:
- Alcoholic beverages with different %ABV affect the body in different ways. The peak blood alcohol concentration after drinking one typical serving of wine is higher than for beer, and nearly twice as high for spirits as for beer. In addition, the volume of spirits needed to reach the same or higher levels of intoxication is smaller. Simply – it is relatively easy to consume excessive amounts of alcohol quickly when drinking spirits, whereas beer is weaker and served in greater volumes which takes longer to drink. To seek out intoxicating effects, heavy and dependent drinkers graduate to stronger cheap alcohols such as spirits or high strength cider.
- 2.38 White cider was often cited as a particularly concerning product. Some also commented that spirits could be linked to greater harm due to the small amount of liquid needed to be drunk to consume a unit of alcohol. However, one cider maker defended claims against white cider by stating:
- White cider has been regularly discussed in the context of alcohol misuse, yet but now accounts for only 5% of the cider market, or less than 0.25% of all alcohol sold in the UK.
- 2.39 A number of industry members and a couple of public health bodies suggested that alcohol consumed in the on-trade¹ may be less likely to cause harm, due to the supervision of consumption, smaller measure sizes and higher price points. Some also stated that lower ABV, higher volume beverages consumed in pubs (i.e. pints of beer or cider) make consumers intoxicated less quickly and thus could be deemed less harmful.

¹ 'On trade' refers to hospitality businesses where alcohol is typically sold for consumption on the premises, such as restaurants, pubs and bars. Likewise, 'off-trade' refers to businesses where alcohol is sold for consumption off the premises, such as supermarkets and convenience stores.

- 2.40 Public health bodies and economists correlated the price of products with levels of harm, arguing that cheap, strong alcohol was most strongly associated with alcohol-related health and socioeconomic challenges. Some also felt the place of consumption, calorific content of drinks, and marketing of different products could make a product more harmful.
- 2.41 Some respondents argued harmful drinking was a problem across categories and that pinpointing individual risk factors over-simplified associated challenges.

Distinguishing products by strength (Questions 13-20)

- 2.42 Many respondents commented that the current system does not work well in taxing products of different strengths. They felt that inconsistencies between rates sent mixed public health messages, and that having flat rates within wide bands (i.e. for wine and cider) failed to incentivise development of low strength products.
- 2.43 Public health groups outlined a number of ways the Government could set different rates of duty for higher and lower strength products. This included introducing a strength escalator system, considering different drinking contexts, and reviewing studies of consumption behaviour to encourage positive outcomes using taxation.
- 2.44 Respondents differed on where appropriate points might be to set bands for different strength products. Some proposed removing any discrepancy between 'alcohol free' products at 0.05% and 'non-alcoholic' products at 0.5% ABV or below.

Strength escalator

- 2.45 The 'strength escalator' structure of beer duty was highlighted as one area where the current system worked well and as an example that should be applied to other categories of product. One respondent stated:

The system for beer works well in striking a balance between a consistent %ABV for most of the mainstream beer category but allowing a lower and higher %ABV rate for low strength beers and high strength beers. This is consistent with our view that lower-strength products as a principle should pay a lower rate per %ABV and a key principle that the Government should adopt.
- 2.46 Public health groups and a number of economists were among respondents who supported the introduction of a general 'strength escalator' system. They felt that relative to a banded system this could create a stronger incentive to switch to lower strength products.
- 2.47 Other industry members opposed a strength escalator system. Representatives from the spirits industry argued that there remains insufficient evidence to suggest higher strength alcohol is inherently more harmful and felt taxing spirits at a higher rate would impede innovation in the industry. Cider and wine makers also stated that this would place certain industries at an unfair advantage, relative to others in the market.

- 2.48 The formula-based approach used in Iceland was highlighted in the call for evidence. Public health groups generally supported this model. However, there were a sizeable number of respondents who raised concerns. Many felt that the Icelandic model failed to adapt to consumption trends (such as the shift to drinking ‘less but better’) and worried it might discourage innovation. A number also felt it failed to reflect UK demographics, and that Iceland, being a much smaller country with a small population, should not be a basis for comparison.

Encouraging reformulation of products

- 2.49 Public health groups strongly advocated for the duty system to incentivise reformulation of products. Some public health professionals made the point that high-risk drinkers would be more likely to switch to low alcohol alternatives than to stop drinking altogether. Thus, lower strength products could help address alcohol-related harms. Some industry members, predominantly those within the beer industry, supported this idea.
- 2.50 Businesses and trade associations across the sector supported introducing a reduced rate for products below a certain ABV percentage (e.g. 2.8%) to encourage reformulation. Similarly, brewers advocated for the threshold for the lower strength beer rate to be increased from 2.8 to 3.5% ABV to incorporate a wider range of low strength beers and encourage reformulation.
- 2.51 Other industry members stressed that reformulation may be hard to achieve for certain products. Wine makers, for example, raised that ABV of their products was largely climate-dependent, making it more difficult to control, and that only a limited amount of alcohol could be removed under existing regulations. Distillers also noted that due to the strict definition of products with protected geographical indications, reformulation may not be possible. Distillers made the point that the majority of consumers would drink spirits diluted with a mixer.

Distinguishing based on the place of retail (Questions 21-24)

- 2.52 Several respondents supported differential duty rates, which they felt would reduce the price disparity between sales of alcohol in the on and off-trade and encourage more drinking in supervised public settings. There were a wide range of proposals put forward for the appropriate size of any differential.
- 2.53 Most respondents who provided a view on this question thought that if a differential was provided, it should apply to the entire on-trade. There were some who felt the differential should exclusively benefit small, independently run pubs and bars – although they recognised this would be difficult to implement in practice.
- 2.54 Respondents representing off-trade businesses disagreed with this possibility and argued that consumers should not be penalised for choosing to support (for example) their local convenience stores. They stated that, like pubs, many corner shops are at the heart of communities and provide a much-needed service. They also challenged the assertion that the consumption of alcohol in the on trade is safer than in the off trade.

- 2.55 Some industry respondents also highlighted practical concerns about any differential, such as the ability to implement differentials based on the intended destination of the product. They raised concerns about differentials increasing administrative burdens and the risk of fraud. They also noted that the split between the on and the off-trade is not always clear – a restaurant might offer drinks for takeaway as well as with sit-in meals.
- 2.56 Public health groups and economists held mixed views. They recognised that there had been a significant shift from on-trade sales to purchasing alcohol in the off trade for consumption at home. It was also noted that heavier drinkers tend to consume alcohol primarily in the off-trade. However, others said it was not obvious that drinking in the night-time economy created fewer negative externalities than drinking at home. They also questioned whether a slight narrowing of the gap between on and off-trade prices would lead to meaningful change in individual behaviour.

Preferred methods

- 2.57 There were several proposals put forward as a way of implementing a duty differential in the call for evidence, and there was no consensus amongst respondents about the best one. Several respondents suggested that the optimal way to support the on-trade would be through VAT and business rates reductions. Many argued this would be easier to implement than distinguishing alcohol duty based on place of retail.
- 2.58 Some respondents supported a duty relief for retail sales outlets linked physically to the site of production e.g. a ‘farm gate’ or ‘cellar door’ scheme for sales at distilleries, orchards, vineyards or breweries. They suggested that at a time when many vineyards and distilleries are investing to attract visitors, a reduced excise rate would encourage continued investment, drive footfall, increase local tourism and boost the local economy.
- 2.59 Other respondents supported lower duty rates for draught beer sold in the on-trade and referred to the system currently used in Australia as an example of how this could work.
- 2.60 Some supported using a method like the Alcoholic Ingredients Relief scheme, which would allow on-trade establishments to claim back a percentage of duty costs. The relief would be a proportion of duty rather than all duty, given that a proportion of health and other social harms related to alcohol consumption are generated in the on-trade.

Small Producers (Questions 25-28)

- 2.61 Industry members were generally in favour of supporting small producers. However, opinion was divided over whether this should be achieved through the excise system or via other possible measures.
- 2.62 Proponents argued that the excise regime should support small producers, as they offer improved consumer choice through innovation, create local high skilled jobs, and are key parts of their communities and regional tourism. They also argued that small producers lack market power and economies of scale, which hampers their competitiveness and access to market.

- 2.63 Some respondents referenced the success of the Small Brewers Relief scheme as evidence that such schemes provide value for money. They argued that this has shown that facilitating the growth of small producers can yield positive results. Others pointed to the 70hL cider exemption, stating this relief has helped preserve orchards, encouraged small cidemakers, and saved HMRC a great deal of administration. Some referred to international examples, such as that in the USA, where there is a reduced tax rate for the first 100,000 proof gallons of distilled spirits produced. These respondents argued that subsequently the US craft distilling industry was expanding rapidly, supporting tourism and economic development.
- 2.64 However, some respondents qualified their support by stating that the relative success of a product category should be considered before extending small producer reliefs to that product. They felt that if the category was growing strongly, the rationale would need to be strong for the need for additional support. Other respondents felt small producer reliefs should be extended across categories, to help achieve greater consistency and fairness.
- 2.65 Conversely, some respondents opposed small producer reliefs altogether, arguing they provided an unfair competitive advantage and created unnecessary complexity. They proposed existing small producer reliefs be removed. A couple of respondents suggested a sunset clause be put in place for reduced rates for small producers, to end support after a fixed period. Similarly, several respondents stated that before considering specific support through the excise system, a range of alternative possible support mechanisms should be considered, such as reduced business rates, Government backed loans, or support for exports.
- 2.66 Health and economic groups were mostly silent on this issue. However, one economic group stated there was no economic rationale for taxing small producers at lower rates, and that this would only be justified if the drinks produced by small consumers created lower social costs than those produced by larger producers.
- 2.67 Industry members made specific proposals for their sectors:
- Smaller cider producers commented that the current position where a small producer is making less than 7,000 litres per annum pays no duty, but a producer making more than 7,001 litres per annum must pay duty on all of their product at full rates was unfair. This disincentivised growth among smaller cider makers.
 - Distillers suggested small distillers should be put on an equal footing with small breweries and small cider producers. Among these respondents, some proposed a progressive tax reduction applied to all distillers, along the same principles of income tax.
 - Wine makers proposed a 'cellar door' duty relief scheme to support British viticulture. They argued this would help encourage investment in tourist facilities, by permitting producers to sell up to 13,350 bottles per year free of excise duty to the retail public from their vineyards (with no VAT changes or concessions).

- 2.68 Respondents commented that reducing administrative burdens would also support small producers. One respondent stated:
- We would welcome creation of a sub-committee, or a new body including alcohol industry representatives and small producers across beer, wine, cider and spirits to give HMRC and HMT a forum to monitor administrative burdens and how they can be lessened.
- 2.69 There was some division of opinion over how any new relief thresholds should be set. A number supported setting reliefs in reference to only the market for that particular product, stating that the varying economic conditions of different beverages should be considered – with one mentioning a distinction between ‘short’ and ‘long’ drinks. Others preferred keeping reliefs consistent across all categories, and setting thresholds in reference to the whole market, particularly if a unified design was introduced for all alcohol duties.

Indexing rates for inflation (Questions 29-31)

- 2.70 Views on the effectiveness of the current system of indexing duties in line with inflation were largely split between health and economic groups, and alcohol producers.
- 2.71 Public health and economic groups stated that indexing duties in line with inflation was important to protect revenues and retain health-improving properties of the duties. They argued that, from an economic perspective, there was a clear case to balance the negative externalities and internalities created by alcohol consumption. They were among those supportive of automatic uprating, arguing it benefits society and ensures that more government revenue is raised. They stressed that duty should increase enough to ensure alcohol does not become more affordable over time, and supported setting duty rates in advance for the lifetime of each Parliament.
- 2.72 By contrast, producers were generally not supportive of indexation. They preferred a more flexible approach, arguing the pandemic had emphasised the importance of making decisions at least annually. Some producers in particular criticised the practice of uprating being applied unequally across the categories, as this unfairly favoured some products over others. These producers also stressed that without greater convergence amongst categories to reduce the disparities currently present in the system, annual uprating would perpetuate disparities over time.
- 2.73 Some respondents argued that pre-announcing new duty rates with plenty of notice would make business decision-making easier. However, others stressed this would likely lead to increases in forestalling.
- 2.74 Most respondents that provided a view agreed that CPI was a more appropriate index to use when uprating duties and argued that RPI had largely been discredited.
- 2.75 Several public health and economic groups proposed establishing an independent commission of experts from government, charities, health care and academia to advise on the level of alcohol duty, to ensure duty took account of the societal costs of alcohol.

The administration of the duty system (Questions 32-36)

Approvals

- 2.76 The majority of respondents were supportive of a change to a standard framework for approval of alcohol production regimes. Many argued that while the approval process is an important part of compliance, the current system is outdated, overly complex, administratively burdensome and highly inconsistent. Several supported simplification of the current system, stressing it was long overdue.
- 2.77 Many highlighted the benefits of a standard framework. These included reductions in time and resources for administrative matters, fewer barriers when considering expanding operations at different sites, and a system that would be simpler for all to understand.
- 2.78 Similarly, many respondents supported a single approval to produce any type of alcohol. Respondents commented that in addition to removing complexity and reducing administrative burdens and costs, a single approval would encourage innovation and increase flexibility, by removing barriers for producers wishing to change or add to their range of products.
- 2.79 However, some respondents were concerned about the differences between the production methods for different types of alcohol, suggesting a 'one size fits all' standard framework may not be workable. Producers with the greatest flexibilities under the current approval regimes argued they would not want to lose those under a single approval. One respondent also questioned whether a single approval would increase the scope for evasion, fraud and error.
- 2.80 For both a standard framework for approvals and a single approval, several respondents felt that greater digitisation and the use of an online portal would improve the system. Others also pointed out that any new system must be well-designed and fit for purpose, and the design of it would require detailed consultation.
- 2.81 Respondents stressed that careful consideration must be given to the transition process, and producers operating under existing approvals should not be required to re-apply.

Returns and payments

- 2.82 Of those who provided a view, most were in favour of a single policy and process for duty payment across production regimes, as they felt it would reduce complexity and administrative burdens. Several respondents qualified their support by commenting that they would need to see the details of such changes, and as the changes could impact on cash-flow models and financing arrangements, any changes would need to be phased in over time.
- 2.83 Some respondents commented that any move to a single policy and process should not shorten the current payment period for their particular regime. Others recommended a payment date as late as possible in the month to support cash flow. One respondent supported flexibility in payment dates and an extension of 60 days. Some respondents favoured calendar month accounting periods.

- 2.84 Several respondents commented that improved digitisation and moving towards electronic submission for all returns would have the most impact on improving the duty payment system.

Avoidance, evasion and the tax gap

- 2.85 Respondents provided a range of views on the effectiveness of the current systems of control for tackling avoidance and evasion. Some respondents thought that the alcohol sector was highly regulated and felt that current controls were broadly successful and effective.
- 2.86 The introduction of the Alcohol Wholesaler Registration Scheme (AWRS) was mentioned by several respondents as contributing to reducing fraud and evasion. However, one respondent did feel that the AWRS was administratively burdensome, stating they would like to see it removed altogether.
- 2.87 The due diligence condition was also cited by respondents as a proportionate measure for tackling avoidance and evasion. However, some felt it may benefit from review to see if it is being misunderstood, or if improvements could be made to support producers to meet their due diligence requirements.
- 2.88 One of the main reasons given for the current controls being ineffective was that, due to reductions in HMRC budgets, there was a lack of audits and enforcement action, especially for smaller alcohol producers. Some respondents also stated that investment in HMRC resources and training would be needed to ensure the rules and regulations are fully understood.
- 2.89 The complexity of the current controls and differences between alcohol production regimes was also mentioned as contributing to the problems with the current systems of controls.
- 2.90 Some spirits and wine producers commented on the current duty stamps scheme, advising that they do not believe the fiscal marks are effective in tackling fraud. They called for the requirement for duty stamps to be reviewed.
- 2.91 Several respondents noted that the tax gap is reducing over the long-term. However, some cautioned over the methodologies used to calculate the tax gap estimates, advising that the current method is misleading and does not include wine. One respondent commented:

We recommend HMRC establish a stronger quantitative basis for measuring the tax gap and that wine is included within these calculations. To find a solution, it is first important to ascertain the scale of the problem. A more robust measurement for the tax gap is needed.

- 2.92 Most respondents were supportive of improved measures to reduce alcohol fraud but stressed that these should not add burdens to legitimate businesses. One respondent commented:

The compliance regime places burden and cost on the industry. As a result, HMRC enjoys a low cost of collection for alcohol duty. Further requirements may well have diminishing returns or even be sufficiently

burdensome to make activity commercially uneconomic – reducing consumer choice and revenue generated.

2.93 Suggestions and recommendations put forward for tackling alcohol fraud and reducing the tax gap were:

- A more joined up approach between Government agencies (HMRC, Trading and Wine Standards and National Food Crime Unit).
- Increased Government investment and more enforcement activity, including consideration of tougher penalties, such as the ability to remove a retailer's licence to sell alcohol.
- A greater role for trade associations in auditing compliance, leaving HMRC to concentrate on those who choose to ignore their responsibilities.
- More engagement with the transport and freight sector to help identify fraud.
- More collaboration and intelligence sharing in real time between HMRC and alcohol businesses.
- Review of the current drawback process.
- Consideration of how domestic taxation sits alongside duty-free travel retail and passenger allowances.
- Introduction of an alcohol business rate.
- Consideration to introduce a requirement for producers to trade under excise duty paid rather than duty suspension.

Chapter 3

The Government's response

- 3.1 This chapter sets out the Government's response to the call for evidence and explains the conclusions it has reached, which underpin the reforms set out in the rest of this document.

The overall duty system – the case for change

- 3.2 The Government has reflected carefully on the evidence provided by respondents to the call for evidence about the overall duty system and the comparisons between the individual duties. On the basis of what was provided, the Government believes there is an overwhelming case for change.

The current system is inconsistent and highly complex

- 3.3 As respondents set out in the previous chapter, the current system is arbitrary and anomalous. It is not based on any overarching principles, causing the structure of duties to reflect historical preferences and past circumstances, which lack relevance to today. These can give rise to perceptions of unfairness between categories because of the lack of objective design principles.
- 3.4 The current system causes many anomalies and disparities. These include:
- Sparkling wine and still wine are taxed differently between 5.5 and 15% ABV. The reason for why sparkling wines should pay 5% less, and then 28% more duty than an equivalent still wine is unclear, although this discrepancy has persisted in the duty system for a long time.
 - Fortified wines, although made using the addition of spirits, pay less duty than equivalent strength liqueurs made using spirits.
 - Similarly, at lower strengths such as 4% or 5.5% ABV, packaged Ready To Drink (RTD) products pay 25% more duty depending on whether they are made using wine or spirits as their base, even though they may appear indistinguishable in taste or marketed appearance.
 - Fruit cider is classed as made-wine rather than cider, and therefore pays 2-3 times the amount of duty of a comparable apple cider. It also pays a premium rate of duty relative to beer. The structure of made-wine duty is also different to that of cider duty and beer duty, further adding complication.
 - A 75cl bottle of 7.5% ABV fruit wine will pay the same amount of duty in total as a 15% ABV fortified wine, despite having half the alcohol content.

- 3.5 Again, for historical reasons, the current system is highly complex. The main system of rates consists of 15 rates – three for beer, four for cider, seven for wine and made-wine, and one for spirits. It uses three different methods of taxation – taxation by volume produced for wine, made-wine and cider, taxation by litres of pure alcohol produced for spirits, and taxation by hectolitres per cent alcohol for beer.
- 3.6 The source of many of the inconsistencies and complexity is the fact that wine, made-wine and cider are not taxed in line with their ABV content. This means that lower strength wines and ciders pay more duty per unit than higher ABV products, the opposite of what would be expected. This then gives rise to a dilemma, as either:
- Lots of bands are needed to appropriately tax products, adding complexity, or
 - A simpler, but more anomalous system has to be maintained.
- 3.7 There are examples of this tension in the taxation of cider, wine and made-wine historically. Since the introduction of cider duty in 1976, the Government has addressed the fact that higher ABV ciders pay less duty per unit by adding new bands – one as recently as 2019. In 1990, the Government considered the existence of a single band for all wine products below 15% ABV unsatisfactory, as it meant lower ABV products had to be taxed very highly compared to other categories. Accordingly, 5 bands were introduced for wines below 5.5% ABV that year, but five years later these were reduced to two bands. While simpler, this system (which has continued to the present day) creates many of the distortions that limit innovation and choice in this category.

The current system fails to align with public health objectives

- 3.8 The Government believes, as was made evident by public health groups in the call for evidence, that the current design of the tax system impedes the ability of the Government to further its public health objectives.
- 3.9 The complexity of the current system gives rise to anomalies which allows manufacturers to produce high-strength products at low cost. Examples were given of higher-strength ciders, which (at 7.5% ABV) pay as little as 7p per unit in duty, compared to 19p per unit for an equivalent strength beer, or 29p per unit for spirits. Fortified wines at 15% ABV were also cited as a concern, given that they pay around 20% less than an equivalent strength beer, and 30% less than an equivalent strength spirit.
- 3.10 Evidence from public health groups also suggested that higher ABV products have a faster effect on blood alcohol levels, and so the duty system should ensure higher ABV products are taxed proportionately more. This is not a principle which is consistently applied in the current duty system.
- 3.11 Similarly, the Government considered evidence which suggested that heavier drinkers consumed proportionately higher ABV drinks. For example, the Institute for Fiscal Studies¹ published analysis that suggested that adults

¹ See Figure 3.2 from "Tax design in the alcohol market", IFS working paper W17/28 (2017)

drinking 40 units per week consumed drinks at 18% ABV average, whereas those drinking 10 units per week consumed drinks at 14% ABV average. By failing to tax products consistently in line with their ABV, the duty system is not effectively targeted at the most harmful drinking.

The current system fails to reflect modern trends

- 3.12 The Government also believes the current duty system fails to reflect many developments that have occurred over the last twenty years and beyond.
- 3.13 First, there has been a gradual erosion of the once distinct categories. A particularly notable example is fruit ciders, a category that barely existed a decade ago. This category has grown and become widely available, both in packaged and draught formats, to the extent that in 2019 it represented around 27% of all cider sales by volume. However, traditional apple and pear ciders are classed differently to fruit ciders for tax purposes, as fruit ciders are considered as made-wine along with other products such as mead.
- 3.14 Second, assumptions about the perceptions of the categories have proved outdated. Sparkling wine may have once been the preserve of the wealthy, but its consumption has doubled over the last ten years, and the broader market for other sparkling wines, such as prosecco and cava, is worth around twelve times more than that for champagne. In parallel, English and Welsh sparkling wine has grown around ten-fold since 2008, hitting a record 13.1 million bottles of production in 2018.
- 3.15 Thirdly, there has been much innovation in the drinks market that the duty system does not reflect. 'Cocktails in a can' or 'hard seltzers' are products that have increased in popularity in recent years, but are taxed much higher than similar products at the same ABV. This again is driven by the duty system being driven by historical circumstances which are no longer appropriate to the present day.

Distinguishing between products and methods of taxation

- 3.16 The call for evidence asked a number of questions about the most effective ways to tax products by their strength and their source of alcohol, and what would be the most effective basis of taxation.
- 3.17 To address the issues described above and in the previous chapter, the Government believes that alcohol by volume (ABV) content should be the principal factor by which any alcoholic product should be taxed. While there are qualitative differences between products, particularly between distilled and fermented beverages, ultimately it is their alcohol content which is a cause of social harm and public health concern.
- 3.18 As a statement of first principles, the Government therefore believes:
- All products should be taxed in direct proportion to their ABV, i.e. on the amount of pure alcohol in the product². This is the most logical and straightforward approach to taxation and aligns best with the Government's public health objectives. It is also regarded as best practice

² This is sometimes referred to as the 'specific' method.

by tax practitioners. The existing systems for cider and wine, whereby products are taxed in reference to the volume of finished product only, are unfair and distortive.

- Products of the same ABV, as far as practicable, should pay the same rate of duty, regardless of their origin. Other qualitative differences, such as whether a product is still or sparkling, should not affect a product's duty rate. This is already established for products above 22% ABV and the Government believes the application of this principle should be widened.
- There should be a progressive structure of alcohol duty, so that lower ABV products pay proportionately less duty. As discussed above, there is greater risk of harm from higher ABV products as less volume needs to be consumed to reach harmful levels. There is also evidence that heavier drinkers consume proportionately higher ABV products. A flat rate across all ABV strengths is therefore not the most effective alcohol duty system.

3.19 The Government has therefore designed a new structure of rates and reliefs which it believes will be closer to these principles than the current system. These are set out in chapter 4.

3.20 Conversely, the Government does not believe it is appropriate to introduce new ad valorem taxes as they are not linked to alcohol content. In addition, any benefit that might accrue from such taxes is already effectively carried out by VAT.

3.21 The call for evidence explored the possibility of using a formula-based system, such as that used in Iceland, as the basis for a new structure of alcohol duty. However, the Government believes that a formula-based approach could be excessively inflexible and complex for businesses to use. For these reasons, the Government intends to maintain a banded system of alcohol duty.

Tax distinctions based on the place of retail

3.22 The Government notes that the amount of alcohol consumed in the on-trade³ has fallen significantly over the last 20 years, while consumption in the off-trade has continued to rise. By one estimate, the amount of alcohol consumed in the on-trade has declined by 40% between 2000 and 2019, while alcohol consumption has risen by 24%.

3.23 The Government is also mindful that prices, and therefore the affordability of products, in the on and the off-trade have diverged substantially. Since 1980, prices in the on-trade for beer have increased 286%, compared to only 70% in the off-trade. Similar trends exist for wine and spirits.

3.24 These trends have been matched by a significant reduction in the number of pubs of the last 40 years. The Government also received evidence from health stakeholders that drinking in the on-trade was less likely to result in harmful consumption.

³ The 'on-trade' refers to hospitality businesses where alcohol is typically sold for consumption on the premises, such as restaurants, pubs and bars. Likewise, the 'off-trade' refers to businesses where alcohol is sold for consumption off the premises, such as supermarkets and convenience stores.

- 3.25 The Government therefore believes that it is appropriate to distinguish duty rates between the on-trade and the off-trade, because prices and consumer behaviour in the two sectors are distinct.
- 3.26 The call for evidence considered methods such as giving on-trade venues a direct tax rebate (along the lines of Alcoholic Ingredients Relief) or to tax products on the basis of their intended destination. However, and as industry members made clear, the Government considers that these would be overly complex to administer, burdensome on wholesale businesses and liable to fraud.
- 3.27 While some respondents suggested using VAT to differentiate between the on and off-trade, the Government considers that VAT is a broad-based tax that is aimed at raising revenue from consumption and has different objectives to that of alcohol duty.
- 3.28 Some respondents suggested providing British producers exemptions or relief from excise duty if the products were sold on their domestic facilities e.g. 'at the cellar door'. The Government has considered these suggestions but has concluded that there would be a number of problems with this approach. Firstly, these reliefs could be considered unfair, as they would privilege producers who owned premises suitable for tourism. Secondly, this could produce unintended incentives, such as discouraging producers from selling nationally or exporting, and creating a 'cliff-edge' once the main threshold was exceeded. Thirdly, such reliefs would risk breaching the Government's international obligations to treat imported products equally. The Government therefore does not intend to pursue such reliefs.
- 3.29 Having considered all these factors, the Government intends to introduce a reduced rate of duty on products sold in draught containers. This will be comparatively straightforward to implement and directly targeted at products sold in the on-trade, with little risk of diversion to the off-trade. These have been introduced in other countries such as Australia and South Korea and have proved to work effectively. Further detail on this is set out in chapter 4.

Small producer reliefs

- 3.30 The Government considers that, in line with its plans for greater consistency in the overall structure of alcohol duty, there should also be greater consistency in its approach to small producers.
- 3.31 Accordingly chapter 4 provides detail on a proposed new Small Producer Relief, which would extend more broadly than beer to include other products of less than 8.5% ABV.
- 3.32 The Government will respond to its technical consultation on Small Brewers Relief separately in due course.

Indexing duty for inflation

- 3.33 The Government has reflected on the comments made in the call for evidence on indexation. There were a range of views about the regularity of duty upratings, which broadly matched the interests of respondents.

- 3.34 The Government will continue to review alcohol duty on an annual basis, in line with other taxes. The recent coronavirus pandemic has illustrated the importance of regularly reviewing duty rate decisions with regard to the wider economic circumstances and fiscal position.
- 3.35 The Government will also continue to base its forecasts on the assumption that alcohol duties will rise in line with inflation. For the time being, this will continue to be aligned with RPI inflation. As the methodology underpinning RPI inflation is due to align with CPIH from 2030, the Government will review the most appropriate inflationary index to use in future ahead of that change.

The administration of the duty system

- 3.36 The Government believes that the system of maintaining wholly different taxes for each category of product, while based on sound reasons historically, is no longer necessary or appropriate.
- 3.37 The Government will therefore over time work to minimise the administrative differences between categories and standardise terms, while also modernising and digitising administrative systems. More detail on how this will be achieved is set out in chapter 5.

Avoidance and evasion

- 3.38 The Government believes that simplifying the structure of alcohol duties and digitising duty administration in line with the policies outlined above will have a positive impact on compliance. This will help reduce the number of errors caused by the complexity of the current system.
- 3.39 HMRC regularly reviews its Alcohol Strategy, and regularly collaborates with trade associations and alcohol businesses on avoidance and abuse. This includes members of the Joint Alcohol and Tobacco Consultative Group (JATCG) as well as wider industry and other enforcement agencies. HMRC will take on board the feedback on avoidance and evasion provided as part of the call for evidence and consider it further through these regular discussions.
- 3.40 Several respondents to the call for evidence raised the issue of duty stamps, which must be applied to spirits, wine and made-wine over 30% ABV sold in bottles of 35 centilitres or more. Given the large number of changes proposed to the structure of alcohol duties in this document, the Government does not intend to make any changes to its approach regarding duty stamps at this stage. HMRC is undertaking its own programme of excise simplification and modernisation and will consider changes to the duty stamps policy as the reforms in this document are implemented. This approach will allow for a full assessment of the impact of duty stamps and ensure the best outcome for the sector and the UK taxpayer.
- 3.41 With regards to the tax gap, the Measuring Tax Gaps 2021 edition notes that due to the uncertainty in the methodology used, the central estimates should be interpreted as an indicator of long-term trends, rather than as a precise estimate of year-on-year changes. Information on the different

methodologies can be found in the methodological annex of the Tax Gaps document.

- 3.42 HMRC is currently working on improvements to the Tax Gap methodology for alcohol, in preparation for next year's report. This includes exploring data for a new wine tax gap model and enhancing the model for beer. The absence of a measurement has not affected HMRC's targeting of wine fraud, as the alcohol strategy gives equal priority to all alcohol products, targeting the criminality rather than the specific commodity.

Chapter 4

The new structure of alcohol duty

- 4.1 This chapter sets out the Government's proposals for a new structure of alcohol duty, including new rates and reliefs.
- 4.2 In devising this system, the Government has considered the fiscal impact of changes, the potential benefits to public health, the changing nature of the alcohol market and the economic impacts of changes to duties on producers and consumers. In doing so, it has been supported by the information provided by the responses to the call for evidence.
- 4.3 The Government believes that the changes set out below strike a pragmatic balance between these considerations and will be a significant improvement over what exists at present. The Government believes that the new system will:
- Be simpler, with a reduced number of bands based on a common method of taxation across all products and categories,
 - Be fairer and more consistent, by using a common design framework for all the duties, and eliminating or narrowing the gaps between the categories where these are not justified on objective criteria,
 - Spur innovation, by providing producers with a logical and coherent basis of taxation, and removing anomalies that discourage product development,
 - Support public health, by focussing on products that cause the highest harm, while in parallel relieving the tax burden on products less associated with harm, and
 - Support the on-trade, by reducing the burden of taxation on products exclusively sold in the on-trade.

Overall changes to duties

- 4.4 To move towards greater consistency and the principles set out in the previous chapter, the Government intends to reform duties as follows:
- All products across all categories will be taxed in reference to the litres of pure alcohol they contain, as is currently the case for spirits.
 - All categories will move to a standardised series of bands for the rates, with rates for products between 1.2-3.4% ABV, 3.5-8.4% ABV, 8.5-22% ABV, and above 22% ABV.

- For the 8.5-22% ABV and above 22% ABV bands, all products across all categories will pay the same rate of duty.

Changes for beer duty

- 4.5 The Government considers that beer duty is generally a well-structured tax, with duty levied in reference to the ABV of the product and a lower rate of duty for lower strength products.
- 4.6 The Government therefore intends to make only minor changes to the structure of beer duty, in line with the overall changes above:
- The reduced rate for products below 2.8% ABV will be widened, to now extend to products below 3.5% ABV.
 - The higher rate for beers above 7.5% ABV will be moved up to start at 8.5% ABV and aligned with the new rate for products above 8.5% ABV.
- 4.7 These changes mean that beers above 8.5% ABV will now pay the same rate of duty as wines and spirits.

Changes for wine and made-wine duties

- 4.8 The Government considers that wine and made-wine duties are currently poorly structured taxes, with significant anomalies and distortions present throughout. Products below 8.5% ABV are only competitive when produced at 4% and 5.5% ABV, as these are the minimum rates of duty per unit available to manufacturers. This constrains product innovation and limits the growth of lower-strength products that fall into these classifications. The Government is also concerned that the current system allows fortified wines to pay significantly less duty than comparable spirits products, and less duty per unit than lower strength products such as beers.
- 4.9 The Government therefore intends to significantly reform this duty in line with the principles above, as follows:
- All wine and made-wine drinks will be taxed in reference to their ABV. The existing system, where still wines at 5.6% and 15% ABV to pay the same level of duty overall, will end.
 - The different rates for still and sparkling wines will be abolished, and both products will be taxed at a single rate. For products below 8.5% ABV, this will be slightly below the level per unit currently applied to wine and made-wine drinks at 4% ABV.
 - Products between 8.5%-22% ABV will be taxed at a single flat rate per litre of pure alcohol. This will be between the existing still and sparkling rates and will be set at approximately the current rate per unit of a 11.5% ABV still wine.
 - To support development of lower strength products, a new reduced rate will be introduced for products below 3.5% ABV.
- 4.10 The existing system of taxing wines above 22% ABV in line with spirits on the basis of their pure alcohol content will continue.

- 4.11 The Government will discuss the technical implications of moving wines to be taxed in proportion to ABV with industry stakeholders during the consultation period, including its interaction with any non-tax rules such as labelling requirements and permitted tolerances.

Changes for cider duty

- 4.12 The Government considers that cider duty is also not a well-structured tax. As it is not charged in reference to the ABV of the product, high strength ciders pay proportionately less duty than those at lower ABVs. For example, a cider of 6.8% ABV will pay the same duty as one at 4% ABV, despite containing 70% more alcohol. The Government believes, on the basis of the evidence provided to it, that this has contributed to high rates of problem drinking using so-called 'white ciders'. Conversely, the current structure of cider duty provides no incentive to producers who may wish to produce lower ABV products.
- 4.13 The Government therefore intends to tax all cider products on the basis of their ABV, i.e. their pure alcohol content. This will be set at approximately the rate currently charged to a 4.6% ABV cider.
- 4.14 As mentioned above, the Government intends to reduce the duty on sparkling ciders in line with that of sparkling wines, and to equalise this with the rates for still wine and made-wine. This will significantly reduce the tax burden on these products, by around 50% for typical ABVs.
- 4.15 There were some requests to revisit the definition of cider for duty purposes (e.g. to widen the list of permitted ingredients). The Government does not intend to make any change at this stage to widen the definition of the category. The Government believes that cider is an important and historic industry, and the definition of cider should therefore remain tightly focussed to reflect this heritage. The Government is reforming the structure of wine/made-wine duty, which will address some of the greatest issues highlighted in the call for evidence with fruit and sparkling ciders.
- 4.16 The Government was also urged by some respondents to consider raising the juice requirements for the cider duty category, e.g. to 50% or even 90% from its present level of 35%. The Government would like to explore this issue further and will discuss this during the consultation period with industry stakeholders.
- 4.17 The Government was urged by some respondents to the call for evidence to consider equalising cider duty with beer duty, as these were considered competing products, and this would eliminate disparities between the categories. While this would make the duty system even simpler and more coherent, the Government is mindful of the significant impact this would likely have on the cider industry. Apple and pear cider clearances have been in decline for the last decade, with volumes decreasing 28% since between 2009 and 2019.

Changes for spirits duty

- 4.18 The Government considers that the structure of spirits duty is relatively well constructed. However, it does not allow reduced rates for products of lower

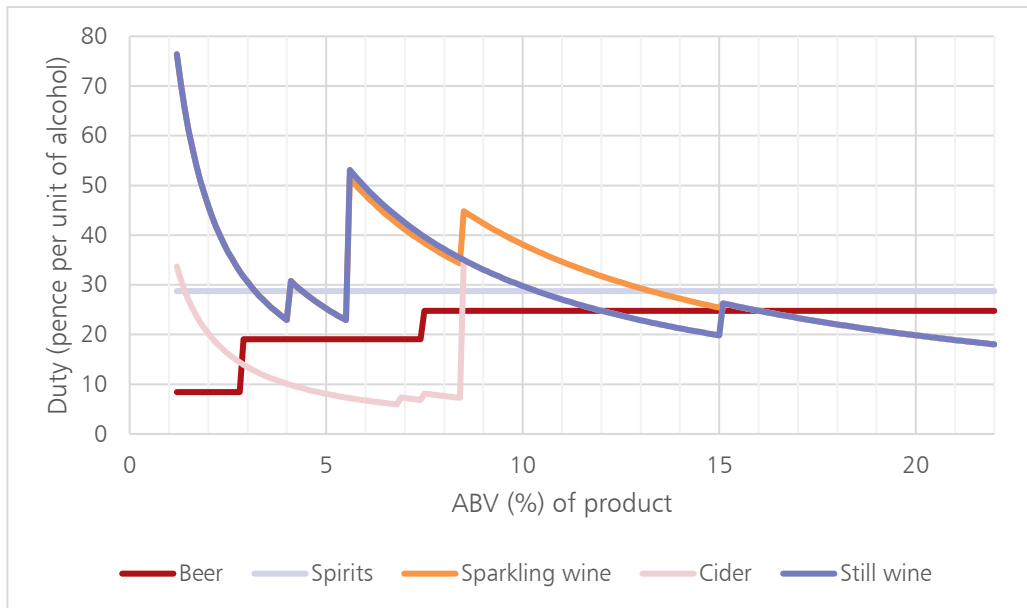
ABVs, meaning that spirits products are charged a premium duty rate compared to others such as fortified wine or wine-based RTDs, even when they are the same ABV.

- 4.19 To address this and align with the principle of a progressive duty system, the Government therefore intends to reduce the rates on spirits duty below 22% ABV to match that for wine and made-wine.

Overall comparison between existing and new rates

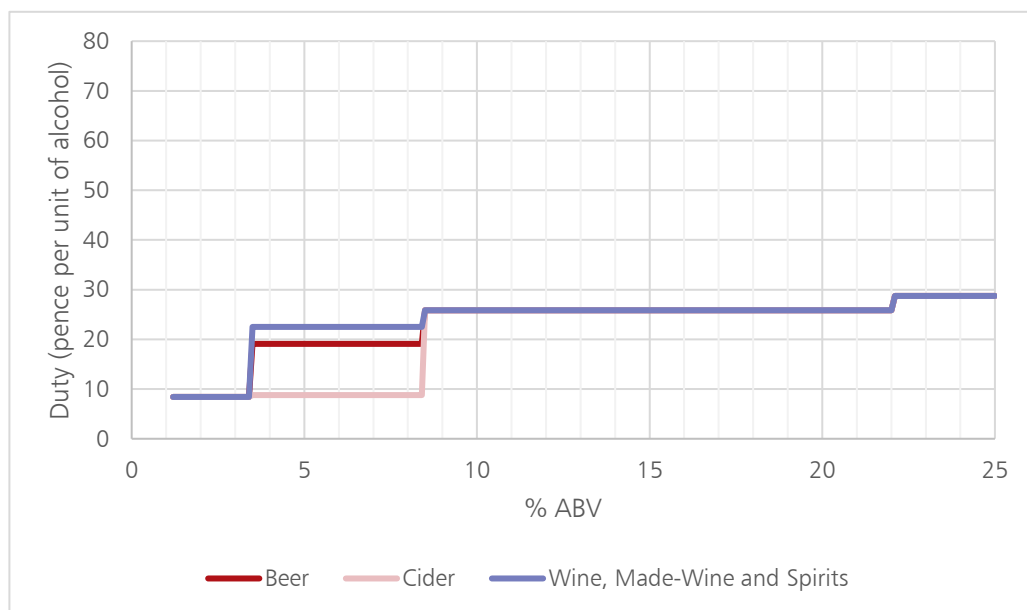
- 4.20 The changes between the existing and the proposed new system can therefore be summarised in the graphs and tables below.

Chart 4.A: Current duty rates in pence per unit



Source: HM Treasury analysis

Chart 4.B: New duty rates in pence per unit



Source: HM Treasury analysis

Table 4.A: Existing duty rates

ABV	Beer	Cider	Still Wine, Made-Wine	Sparkling Wine, Made- Wine	Spirits
0-1.2%			Nil		
1.3-2.8%	£8.42/hL%	£40.38/hL	£91.68/hL	£91.68/hL	£28.74/lpa
2.9-4%	£19.08/hL%	£40.38/hL	£91.68/hL	£91.68/hL	£28.74/lpa
4.1-5.5%	£19.08/hL%	£40.38/hL	£126.08/hL	£126.08/hL	£28.74/lpa
5.6-6.8%	£19.08/hL%	£40.38/hL	£297.57/hL	£288.10/hL	£28.74/lpa
6.9-7.5%	£19.08/hL%	£50.71/hL	£297.57/hL	£288.10/hL	£28.74/lpa
7.5-8.4%	£24.77/hL%	£61.04/hL	£297.57/hL	£288.10/hL	£28.74/lpa
8.5-15%	£24.77/hL%	£297.57/hL	£297.57/hL	£381.15/hL	£28.74/lpa
15.1-22%	£24.77/hL%	£396.72/hL	£396.72/hL	£396.72/hL	£28.74/lpa
22%+	£24.77/hL%	£28.74/lpa	£28.74/lpa	£28.74/lpa	£28.74/lpa

hL% = per hectolitre per cent alcohol, hL = per hectolitre, lpa = per litre of pure alcohol

Table 4.B: New duty rates (per litre of pure alcohol) from 1 February 2023

ABV	Beer	Cider	Wine, Made-Wine and Spirits
0-1.2%		Nil	
1.3-3.4%		£8.42	
3.5-8.4%	£19.08	£8.78	£22.50
8.5-22%		£25.88	
22%+		£28.74	

4.21 The wine, made-wine and spirits category includes sparkling wine. As discussed above, fruit ciders will continue to be categorised as made wines. Sparkling cider above 5.5% ABV will continue to pay the same rate as sparkling wine and made-wine (which will be now harmonised with still wine and made-wine). The Government also intends not to adjust the definitions of what products qualify as beer, rather than made-wine.

Box 4.A: Overview of new rates structure – questions

- 1 What are your views on the proposed new structure of alcohol duty?
- 2 Do you think the proposed duty rates are appropriate?
- 3 Are there any other changes that you think should be included in the new structures?

Draught products rates

- 4.22 As explained in the previous chapter, the Government considers it appropriate to distinguish duty rates between the on-trade and off-trade. The Government therefore intends to introduce new reduced rates for draught products sold in large containers to reduce the tax burden on products sold predominantly in the on-trade. This will include draught beer, cider and made-wines such as fruit ciders or mead. A similar policy has been in place in Australia for 20 years and works effectively.
- 4.23 This approach avoids the complex treatments that would be needed to differentiate packaged products, which might be sold for multiple uses.
- 4.24 To avoid diversion to the off-trade, to qualify for the reduced rates products must be:
- Below 8.5% ABV,
 - In large containers of at least 40 litres, and
 - Sold so as to connect to a dispense system.
- 4.25 The Government does not intend to extend these reduced rates to any product containing spirits. These rates are intended to reduce the tax burden on existing, perishable products that are sold exclusively in the on-trade, and not to encourage artificial reformulation.
- 4.26 The Government proposes that the rates applying to qualifying products should be as follows. For beer and cider, these are approximately 5% lower than the proposed rates in the main structure. For draught made-wines and wines, the Government proposes these should align with the new rate for draught beer.

Table 4.C: New duty rates for draught products (per litre of pure alcohol)

ABV	Beer	Cider	Made-Wine / Wine
0-1.2%	Nil	Nil	Nil
1.3-3.4%	£8.00	£8.00	£8.00
3.5-8.4%	£18.13	£8.34	£18.13

Box 4.B: Draught products rates – questions

- 4 Do you support the principle of the proposed rates for draught products?
- 5 Do you consider that the proposed rates are appropriate?
- 6 Do you agree with the qualifying criteria for the draught rates?
- 7 Would any safeguards be needed to prevent fraud or diversion?

Small producer reliefs

- 4.27 The Government sought views in the call for evidence on expanding upon the existing Small Brewers Relief (SBR) to provide more general forms of relief for small producers.
- 4.28 The Government intends to build upon the SBR scheme by introducing a new small producer relief, which will also be applicable to small producers of cider, wines/made-wines such as fruit ciders or fruit wines, and spirits-based products. Unlike the existing SBR scheme, the Government intends that this will apply to lower strength beers as well.
- 4.29 This will largely mirror the SBR scheme in its design and operation, in line with the proposed reforms above and the parameters the Government announced in its technical consultation on SBR earlier this year. Namely:
- Qualifying businesses will be entitled to reduced rates on products below 8.5% ABV
 - Producers will need to produce less than a maximum threshold of pure alcohol in the previous calendar year to qualify
 - Businesses will be able to qualify for the reduced rates based on their production in the previous year
 - Product produced under licence¹ will not qualify
 - The scheme will be open to imported products
- 4.30 The Government does not intend to extend this small producer relief to products at 8.5% ABV or above, which will exclude many (but not all) wines and spirit-based products. The Government intends to extend the relief to lower ABV products so as to reduce inconsistencies between the existing reliefs already available to products below 8.5% ABV, rather than expanding small producer reliefs into wholly new areas.
- 4.31 To ensure parity between the various categories in which a producer may be involved, and the different strengths of the products in question, the Government intends that the relief will be calculated in reference to the total hectolitres of pure alcohol (hLpa) made by that producer². A producer's total production across all categories will count towards the taper calculation. For example, if a business produced 2,000 hLpa from beer, and 1,000 hLpa from cider, it would be assessed on the basis that it had produced 3,000 hLpa. As higher strength products contain more litres of pure alcohol, fewer hectolitres of finished product will qualify for producers that focus on these products, and vice versa. This will help producers who are focussing on lower strength products.
- 4.32 The relief will provide qualifying small producers with the ability to reduce their duty bill by a fixed amount. Once a producer has exceeded a certain

¹ For beer, this includes "producing an existing brand of beer, the name and intellectual property rights of which are owned by a third party"

² For example, a litre of pure alcohol is equivalent to 25 litres (44 pints) of 4% beer, 20 litres (35 pints) of 5% cider, or 12.5 litres (16 75cl bottles) of 8% fruit wine.

amount of production, a taper will apply to draw down the value of this reduction until it reaches zero at the maximum threshold.

- 4.33 The Government intends that products above 8.5% ABV (and therefore not eligible for small producer reductions) will count towards a producer's overall production. This avoids creating the situation where large established producers in other categories could be eligible for small producer rates if they entered another category. Products at or below 1.2% ABV would not count towards production, as they are not subject to duty. The Government will therefore consider raising the definition of beer from exceeding 0.5% ABV to exceeding 1.2% ABV to align with the other categories.
- 4.34 The Government is interested to understand the views of stakeholders on the appropriate level of these thresholds. The maximum threshold for SBR is currently 60,000 hectolitres of finished product, which when converted to a pure alcohol basis using typical strengths for beers would be approximately 2,500 hectolitres of pure alcohol.
- 4.35 The Government announced in July 2020 that it intended to reduce the taper for SBR to start at 2,100 hectolitres of finished product, which on the same calculation would be approximately 90 hectolitres of pure alcohol.
- 4.36 The Government would also be interested to understand the views of stakeholders on the appropriate maximum amount of reduction for each individual duty. Currently, for SBR, the maximum amount that a brewer can receive is 50% of the main beer duty rate (in cash terms £9.54 per hectolitre per cent ABV³). However, the Government is aware that applying a simple 50% reduction to other categories like cider, made-wine, lower ABV beers and draught products may not be appropriate, given their different proposed duty rates. These categories may also have different cost structures and economies of scale, on which the Government would welcome further information from respondents.

Box 4.C: Examples of how this scheme could work

In both examples, the scheme parameters are set as follows. These are notional values to explain the mechanisms of the relief and are not the Government's proposed policy.

- Maximum threshold: 2,500 hLpa
- Taper start point: 90 hLpa
- Reduction for beer, cider, made-wine and spirits (1.2-3.4% ABV): £2.00 per litre of pure alcohol (Lpa)
- Reduction for cider: £2.50 per Lpa
- Reduction for made-wine: £5.00 per Lpa
- Reduction for draught beer (3.5-8.4% ABV): £9.00 per Lpa

³ This is functionally equivalent to per litre of pure alcohol.

Example 1: A small producer makes 50 hLpa across beer, cider, mead and some fruit ciders. As it is below the taper start point, it receives the full value of the discount on all of its products. Accordingly it will pay:

- On beers between 3.5%-8.4% ABV, it will pay £9.54 per Lpa, equivalent to the current SBR scheme.
- On draught beers of the same strength, it will pay the draught rate of £18.13 per Lpa less the discount of £9.00 per Lpa, so net it will pay £9.13 per Lpa.
- On ciders (3.5-8.4% ABV), it will pay £8.78 per Lpa less the discount of £2.50 per Lpa, so net it will pay £6.28 per Lpa.
- On made-wines like mead (3.5-8.4% ABV), it will pay £22.92 less the discount of £5.00 per Lpa, so net it will pay £17.92 per Lpa.

Example 2: a larger brewer produces 1,000 hLpa. As it is above the taper start point, it will not receive the full value of the small producer relief, which will instead be drawn down by a formula. Consider in this example that the taper formula reduces the value of the discount for a producer of this size by 75%. In this case, the brewer will pay:

- On beers of 3.5-8.4% ABV, £19.08 less 25% of £9.54, so net £16.70 per Lpa.
- On draught beers of the same strength, £18.13 less 25% of £9.00, so net £15.88 per Lpa.
- On beers between 1.2-3.4% ABV, £8.42 less 25% of 2.00, so net £7.92 per Lpa.

- 4.37 The Government intends this to build on and not replace the existing exemption for small cidemakers, as the transition at 70hL has been identified as an impediment to growth. Small cidemakers below this level will continue to be exempt from the requirement to register and therefore pay no excise duty. However, once cidemakers exceed this level, the Government proposes to give them a full rebate of the excise duty that would have otherwise been payable, to remove the existing distortionary 'cliff-edge'. This rebate will only be available to cidemakers who produce less than the maximum threshold for the small producer relief as a whole.
- 4.38 The Government is interested in the views of stakeholders on how this scheme should operate at a technical level.
- 4.39 The Government will respond to the technical consultation on SBR separately, addressing the specific questions raised in that consultation and reflecting the proposal above to broaden and standardise small producer reliefs across categories.

Box 4.D: Small producer reliefs – questions

- 8 Do you support the principle of an expanded small producer relief?
- 9 Do you agree that this should be based on total production, measured in hectolitres of pure alcohol?
- 10 What would the appropriate start point be for a taper in hectolitres of pure alcohol?
- 11 What is the largest size a producer should be to qualify for the small producer relief, in hectolitres of pure alcohol?
- 12 To inform this, do you have any information on the cost differences between large and small producers in the different categories?
- 13 Would any safeguards be needed for any categories? For example, would businesses be required to grow themselves a minimum percentage of the input ingredients to qualify for these new reliefs?
- 14 Are you content for the small producer relief to otherwise follow the design of the SBR scheme, e.g. on technical details?

Implementation

- 4.40 Subject to the outcome of the consultation, the Government intends to legislate for the changes to the rates structure (including the draught rates) through the 2022/23 Finance Bill, with the new rates structure to take effect from 1 February 2023. On this schedule, the associated primary legislation will be published in draft in Summer 2022 for technical consultation.
- 4.41 The Government will discuss with stakeholders what the most appropriate time would be to introduce the new small producer relief.

Chapter 5

A simpler administrative regime

- 5.1 This chapter explains the improvements HMRC intend to make to the way the alcohol duty regime is administered.
- 5.2 Chapter 5 of the call for evidence asked for views on potential reforms to the administrative elements of the alcohol duty regime. Since the call for evidence closed, HMRC has been considering the responses and has reviewed the legal requirements across each alcohol regime to consider how these could be harmonised. Further customer research has been conducted with alcohol producers to understand in greater detail the issues and potential challenges from a user perspective.

Approvals

- 5.3 The Government proposes changing the administration of the approvals for alcohol production regimes as set out below. The Government believes these proposals will reduce business burdens and make it easier for businesses to grow, diversify and adapt to customer demand by allowing alcohol production businesses to operate under one approval system.
- 5.4 The Government proposes a single approval process that will allow production of all types of alcohol produced across multiple sites. The need for certain producers to require additional excise warehouse approval to store the goods they make will also be removed. This would mean a business producing cider and beer at four different sites would require a single approval that covered all four production premises and the products made at each site, rather than the 12 separate registrations they would require under the current rules.
- 5.5 Applications will be made online, which will allow HMRC to tailor the information requested depending on the type of approval, removing unnecessary data fields and saving the user time.
- 5.6 Once approved, if a business wished to diversify into a different type of alcohol production, they would only be required to notify HMRC and their approval will be updated. Similarly, if an approved business wanted to expand their production to an additional site, they would only be required to notify HMRC and provide a plan of the new premises. The new address would then be added to their existing approval.
- 5.7 Under the new single alcohol approval, a producer will be able to:
- produce alcohol
 - hold product they have made themselves without payment of duty

- hold alcohol products produced elsewhere without payment of duty and import alcohol products direct to their premises (for the types of alcohol included in their approval).
- 5.8 This is similar to the current registration regime for brewers, which has the greatest flexibility of all the production regimes.
- 5.9 Additional storage premises will be allowed under an alcohol approval to hold alcoholic products for which the business is approved without payment of duty. Adjacent premises for 'holding' are currently allowed for breweries and are limited to a distance of 5km from the production premises. HMRC proposes to maintain this 5km limit for additional storage premises.
- 5.10 To minimise the risk of fraud, HMRC will retain the ability to refuse an alcohol approval application if they believe it is reasonable to do so under 'fit and proper' rules¹. There will be no requirement for an alcohol producer to make an 'entry' of premises, but a plan of the premises will be required in the application process. HMRC will have the ability to impose conditions on an alcohol approval, revoke an approval at any time for reasonable cause and vary approvals. There will be no requirement to provide a premises guarantee.
- 5.11 Alcohol producers will still be required to notify HMRC of any changes to their approval e.g. change in directors or if they cease to trade, but this will be an online process.
- 5.12 There will be no changes to the current exemptions for the different alcohol types e.g. the exemption for production of beer for personal consumption.
- 5.13 HMRC's intention is that the current beer, cider, spirits, wine and made-wine licences and registrations will be carried over to the new alcohol approvals system with no need for producers to reapply. Transitional arrangements will be considered in further detail in due course. Information on how this process will be completed will be shared with all alcohol producers that hold a licence or registration for any of the alcohol production regimes.
- 5.14 The requirement for rectifiers and compounders working with duty paid spirits to be licensed or approved will be removed under new system.

Box 5.A: Approvals – Questions

15 What are your views on the proposed administration system for alcohol approvals?

16 Will the changes reduce the complexities in the current system and support your business's ability to diversify, grow and adapt?

17 Do you see any issues with the changes proposed and, if so, how could they be improved?

¹ HMRC will assess applicants against a number of criteria to test that the business is a genuine enterprise which is commercially viable, with genuine need for approval and that all persons with an important role or interest in it are law abiding, responsible and do not pose a significant threat in terms of potential revenue non-compliance or fraud.

Returns and payment

- 5.15 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 submitting a return to HMRC, the length of accounting period and the payment date. The call for evidence asked for views on a single policy and process for duty payment across all alcohol production regimes.
- 5.16 The Government proposes a single alcohol duty return to cover all types of alcohol and all premises. This will align with the proposals for alcohol approvals, meaning there will be a single duty return per approval. This means a business currently making beer and made-wine at six premises will only need to submit one return for all the alcohol that passed a duty point from all six premises within the accounting period, instead of the 12 they would be required to submit under the current system.
- 5.17 As spirits producers will no longer require a separate distiller's warehouse, they will no longer declare and pay spirits duty due via the alcohol and tobacco warehousing declaration system (ATWD) but through the alcohol accounting system, namely, on a monthly alcohol return with monthly payment for spirits which have passed a duty point during the accounting period.
- 5.18 There will be monthly accounting periods with returns and payments due on the last day of the month following the end of the accounting period. So, for the April accounting period, the return and payment will be due on 31 May. The Government is of the view that monthly accounting periods are still the most effective option for meeting the objectives of the alcohol duty system.
- 5.19 A standardised set of payment methods will be accepted for all duties, in line with HMRC's payment strategy.
- 5.20 Nil returns will be required to be submitted for months when no duty payment is required. As is the case with most of the current duty returns, businesses will be able to make over declarations and under declarations on the alcohol return as well as adjustments for claiming duty back duty for spoiled product.
- 5.21 There will be no requirement to provide a guarantee to defer payment of duty (until the end of the month) except in exceptional circumstances where HMRC believe it is necessary for protection of the revenue.

Box 5.B: Returns and payment – questions

- 18 What are your views on the revised arrangements for declaration and payment of alcohol duty?
- 19 Will the changes reduce administrative burdens?
- 20 Do you see any issues with the changes proposed and, if so, how could these be improved?

Digitisation

5.22 The Government intends to digitise the approvals and accounting systems to provide alcohol producers with the ability to submit information online. This would include:

- Applying for approval
- Receiving approval from HMRC
- Notifying changes and cancellations to HMRC
- Receiving confirmation of amendments to approvals from HMRC
- Submitting duty returns (with automated calculation checks)
- Paying duty

Box 5.C: Digitisation – questions

21 What are your views on the intention to digitise the approvals and accounting systems for alcohol producers?

22 Do you have any suggestions on how further digitisation could support your business?

23 Do you see any issues with the proposals and, if so, how these could be improved?

Implementation timetable

5.23 The Government plans to legislate for the changes to the approvals and returns and payments for alcohol producers in the 2022/23 Finance Act, with the draft legislation published for comment in summer 2022. The associated secondary legislation will follow and will also be published for comment.

5.24 HMRC are working on developing the system changes required to enable the new administrative structure to be introduced in 2023. However, this is an initial estimate and may be subject to change. HMRC will give at least 12 months' notice of the start date to allow businesses time to make the required changes to their own systems.

Chapter 6

Consultation questions

Questions in this consultation

Overview of new rates structure

- 1 What are your views on the proposed new structures of alcohol duty?
- 2 Do you think the proposed duty rates are appropriate?
- 3 Are there any other changes that you think should be included in the new structures?

Draught products rates

- 4 Do you support the principle of the proposed rates for draught products?
- 5 Do you consider that the proposed rates are appropriate?
- 6 Do you agree with the qualifying criteria for the draught rates?
- 7 Would any safeguards be needed to prevent fraud or diversion?

Small producer relief

- 8 Do you support the principle of an expanded small producer relief?
- 9 Do you agree that this should be based on total production, measured in hectolitres of pure alcohol?
- 10 What would the appropriate start point be for a taper be in hectolitres of pure alcohol?
- 11 What is the largest size a producer should be to qualify for the small producer relief, in hectolitres of pure alcohol?
- 12 To inform this, do you have any information on the cost differences between large and small producers in the different categories?
- 13 Would any safeguards be needed for any categories? For example, would businesses be required to grow themselves a minimum percentage of the input ingredients to qualify for these new reliefs?

14 Are you content for the small producer relief to otherwise follow the design of the Small Brewers Relief (SBR) scheme, e.g. on technical details?

Approvals

15 What are your views on the proposed administration system for alcohol approvals?

16 Will the changes reduce the complexities in the current system and support your business's ability to diversify, grow and adapt?

17 Do you see any issues with the changes proposed and, if so, how could they be improved?

Returns and payment

18 What are your views on the revised arrangements for declaration and payment of alcohol duty?

19 Will the changes reduce administrative burdens?

20 Do you see any issues with the changes proposed and, if so, how could these be improved?

Digitisation

21 What are your views on the intention to digitise the approvals and accounting systems for alcohol producers?

22 Do you have any suggestions on how further digitisation could support your business?

23 Do you see any issues with the proposals and, if so, how these could be improved?

Annex A

Respondents to the call for evidence

List of respondents

A.1 106 individual responses were received from stakeholders. Those who responded (in alphabetical order) were:

1	Accolade Wines	55	Institute for Fiscal Studies
2	Alan Powell Associates	56	Institute for Alcohol Studies
3	Alcohol Change UK	57	Institute of Economic Affairs
4	Alcohol Focus Scotland	58	Lambswick Drinks Co Ltd
5	Alcohol Health Alliance UK	59	Laurent-Perrier UK Ltd
6	Aluminium Packaging Recycling Organisation Ltd	60	Long Live The Local
7	Amber Beverage Group	61	Milton Brewery
8	Association of Convenience Stores	62	Moet Hennessy UK Ltd
9	Association of Directors of Public Health	63	Molson Coors Beverage Co Ltd
10	Aston Manor Cider	64	National Association of Cider Makers
11	Australian Vintage Ltd	65	Newcastle and North Cumbria Integrated Care System
12	Bacchus Wine Auctions Ltd	66	Newcastle City Council
13	Balance	67	North Tyneside Council
14	Beer Counter Ltd T/A Ridgeway Brewery	68	Northern Ireland Drinks Industry Group
15	Bevisol Ltd	69	Northumberland County Council Public Health Team
16	Black Sheep Brewery	70	Pernod Ricard
17	British Beer and Pub Association	71	Perry's Cider Ltd
18	British Distillers Alliance	72	Public Health Durham
19	British Liver Trust	73	Public Health England
20	British Medical Association	74	Ridge & Furrow Cider

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|----|---|----|---|
| 21 | British Society of Gastroenterology | 75 | S H Jones Wines Ltd |
| 22 | Brothers Drinks Co Ltd | 76 | Sanford Orchards Ltd |
| 23 | Budweiser Brewing Group UK and Ireland | 77 | Sazerac Co |
| 24 | C&C Group plc | 78 | Scotch Whisky Association |
| 25 | CAMRA (the Campaign for Real Ale) | 79 | Scottish Grocers' Federation |
| 26 | Cancer Research UK | 80 | Scottish Health Action on Alcohol Problem |
| 27 | Casella Family Brand (Europe) Ltd | 81 | Sheffield Alcohol Research Group |
| 28 | Cellar & Co Ltd | 82 | Small Independent Cidermakers Association |
| 29 | Centre for Ageing Better | 83 | Social Market Foundation |
| 30 | Cider of Sweden Ltd T/A Kopparberg UK | 84 | South Tyneside Alcohol Alliance |
| 31 | Club Soda | 85 | South West of England Cider Makers Association |
| 32 | Concha y Toro UK | 86 | Spectrum Community Health CIC |
| 33 | Cotswold Cider Company Ltd | 87 | Thames Distillers Ltd |
| 34 | County Durham Council | 88 | Thatchers Cider |
| 35 | Cranborne Case Cider | 89 | The Ciderologist |
| 36 | Crime and Security Research Institute, Cardiff University | 90 | The Cotswold Distilling Co Ltd |
| 37 | Darley Ltd | 91 | The Drinkaware Trust |
| 38 | Diageo | 92 | The Royal College of Physicians and Surgeons of Glasgow |
| 39 | Direct Wines Ltd T/A Laithwaite's Wine | 93 | The Society of Independent Brewers (SIBA) |
| 40 | Downton Distiller | 94 | The Somerset Cider Brandy Company |
| 41 | Drinks Ireland | 95 | Thornborough Cider |
| 42 | E&J Gallo Winery | 96 | Three Counties Cider and Perry Association |
| 43 | Federation of Wholesale Distributors | 97 | Tibbits Productions Ltd T/A Artistraw Cider and Perry |
| 44 | Fell Brewery Ltd | 98 | Titanic Brewery |
| 45 | Fine & Rare Wines Ltd | 99 | Treasury Wine Estates |
| 46 | Ganley and Naish Cider Ltd | | |
| 47 | Gateshead Council | | |

48	Global Brands Ltd	100	Tricky Drinks Ltd
49	Greene King	101	UK Hospitality
50	Halewood International Ltd	102	UK Spirits Alliance
51	Hayman Distillers	103	Vranken Pommery UK
52	Heineken UK Ltd	104	Wine and Spirit Trade Association
53	Hogs Back Brewery Ltd	105	Wine Drinkers UK
54	Home Farm Gin	106	Wine GB

Meetings held during the call for evidence

A.2 The Treasury and HMRC jointly held several roundtables during the call for evidence period:

- Institute for Fiscal Studies, Institute for Economic Affairs, Social Market Foundation, Sheffield Alcohol Research Group.
- Molson Coors, Budweiser Brewing Group, Diageo, Heineken, Global Brands, Pernod Ricard.
- Cancer Research UK, Institute of Alcohol Studies, Alcohol Change UK, Scotland Health Action on Alcohol Problems, British Liver Trust, Balance, Collective Voice, Royal Society for Public Health, Royal College of Physicians.
- Wine and Spirit Trade Association, National Association of Cider Makers, CAMRA (Campaign for Real Ale), Scotch Whisky Association, Wine GB, British Beer and Pub Association, UK Spirits Alliance, Society of Independent Brewers (SIBA).

Annex B

Call for evidence questions

The overall duty system

- B.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?
- B.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.
- B.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

- B.4 Overall, how well do the different duties work when combined together as a system?
- B.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

- B.6 Is there a case to move to a standard method of taxation?
- B.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

- B.8 Is the current system of differentiating different alcoholic products on the source of their alcohol a fair approach?
- B.9 Is there a case to remove, or add further, categories of products?
- B.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?
- B.11 Should taxation recognise the costs associated with producing different products?
- B.12 What evidence is there of the differing harms associated with individual products?

Distinguishing products by strength

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

Distinguishing based on the place of retail

- B.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?
- B.22 If so, what would be your recommended method of doing so?
- B.23 What would an appropriate level of a differential be?
- B.24 What retailers should qualify for reliefs? For example, should all “on-trade” venues qualify for reliefs?

Small producers

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

- B.29 How well does the current system of indexing duties in line with inflation work?
- B.30 Would a more consistent, systematic approach to indexing alcohol duties be of benefit?

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

Approvals

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

- B.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

- B.35 How effective do you think the current systems of controls are at tackling avoidance and evasion?
- B.36 What more could be done to reduce the alcohol tax gap?

Annex C

Data protection notice

- C.1 This notice sets out how HM Treasury and HMRC will use respondents' personal data for the purposes of this consultation and explains their rights under the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA).

The data – data subject categories

- C.2 This consultation 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

- C.3 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 consultation. Respondents may volunteer additional identifying information about themselves or third parties.

Legal basis of processing

- C.4 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

- C.5 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

- C.6 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

- C.7 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

- C.8 Information provided in response to this consultation 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).
- C.9 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.
- C.10 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.
- C.11 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.
- C.12 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 consultation will be automatically shared with both HM Treasury and HMRC.
- C.13 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

- C.14 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.
- C.15 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

- C.16 Respondents have the following rights in relation to this consultation:
- 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)

C.17 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

Complaints

C.18 If a respondent has any concerns about the use of their personal data, they should contact HM Treasury at privacy@hmtreasury.gov.uk

C.19 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

C.20 Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Contact details

C.21 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

C.22 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

HM Treasury contacts

This document can be downloaded from 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