Impact of the Government's proposed changes to alcohol duty

Introduction

The Government's review of alcohol excise duty is a once in a lifetime opportunity to make the current regime fairer, easier to understand and simpler to administer, and a review is widely welcomed by the industry. The current alcohol duty system is not fit for purpose, with wine and spirits having been subjected to far greater increases in duty than some other alcoholic drinks over the years despite already being taxed more harshly. This has led to a significantly distorted market. Additionally, the current system is unnecessarily complicated to administer.

Unfortunately, we were left disappointed by the model proposed by the Chancellor in October 2021. The proposals for new model of alcohol excise duty does not right the wrongs of the current system, nor does it meet the Government's stated aims of the review:

Government Aim	Achieved?
Simplify the current complicated system	No - introducing taxation by degree (i.e., based on the ABV percentage of the product) will be complicated, costly, and impractical. Unlike other categories of alcoholic drink, there is a far greater permitted tolerance for the alcoholic content for wine, meaning that without testing every wine at the point excise duty becomes payable it is not possible to accurately determine alcoholic strength.
Make the basis of alcohol taxation more economically rational, with fewer distortions and arbitrary distinctions	No – The Chancellor's proposed model continues to tax spirits and wine more harshly than other categories of alcoholic beverage, reinforcing existing market distortions as opposed to rebalancing them. For example, wine will be taxed at 26p per unit (10ml), whilst cider will be charged at 9p per unit. In no way could this be described as a fairer system nor economically rational, as it makes the least heavily taxed drink cheaper. This is contradictory to the aims of this review as set out by HM Treasury. Under the proposed system, wine duty will increase by £250 million a year whilst duty on beer and cider will fall.

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	Additionally, English wine producers and producers of full-strength spirits will be excluded from Small Producers Relief as they produce products above 8.5% ABV.
Reduce the administrative burden on producers when paying duty and complying with excise requirement	No – Under the proposals, the administrative burden on the supply chain will massively increase by introducing taxation by degree. for wine. This is because introducing a completely new basis for taxing wine will take time to introduce and will involve what we believe are unnecessary and potentially expensive IT changes.

There is, however, time to modify the Government's plans. The measures are currently out for consultation and final plans are not expected until May 2022 at the earliest. Our policy recommendations, set out below, show how, with relatively few changes, the Government can revise the duty regime to make it genuinely fairer and simpler for all.

Our Policy Recommendations

1. **Reduce the differences between rates paid by different categories of alcohol.** The purest system of taxing alcohol not products would see one basic rate per litre of pure alcohol applied to all categories of alcohol. This really would be a fairer system than the current duty regime.

2. **Extend reduced rates to support all small producers.** Relief should be available to businesses making any category of alcoholic beverage and should not be restricted to those making products at less than 8.5% abv. Reduced rates should apply to genuinely small volume producers with relief tapering at a far steeper rate than currently proposed.

3. **Tax all wine between 8.5-15% abv at one rate fixed in the midpoint of the band (12%) and apply the same principle for fortified wines (tax all at 18%).** This would maintain the principles of the Treasury's proposal while reducing the huge administrative burden the current proposals would have on the sector.

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