

TAX BRIEFING NOTE

ALCOHOL DUTY

JANUARY 2023

What is it?

There are four categories of alcohol duty: beer; cider and perry; spirits; and wine and made-wine. Alcohol has long been subject to specific and varying taxation, most notably under the Gin Act 1751 following the 'gin craze' depicted by Hogarth's *Beer Street and Gin Lane*.

Spirits duty is the simplest, which is charged by litre of pure alcohol at a single rate. So a 500ml bottle containing 20 per cent alcohol would be liable for half as much duty as either a 500ml bottle with 40 per cent alcohol, or a one litre bottle with 20 per cent alcohol.

Wine duty is grouped into bands of alcohol strength (which differ again according to whether the wine is sparkling or still). Wines within a band are charged a duty based on the quantity of the wine, with higher rates applied to bands with a higher range of alcoholic content. This means that the duty per litre of alcohol falls before a 'cliff edge' at each band threshold. Cider duty is levied similarly, with five rates depending on classification as high, medium or low strength and still or sparkling.

Beer duty, however, is levied similarly to spirits, albeit at a much lower rate per unit of alcohol, and with a high strength rate (approximately 30 per cent higher duty) and a low strength rate (approximately 55 per cent lower) in addition to the standard rate.

A new system based on a standardised series of tax bands based on alcohol by volume (ABV) is due to come in to force in August 2023.¹

What's the problem with it?

Alcohol duties are needlessly complicated, economically distortionary and morally oppressive. There is also much evidence that they fail to achieve the aims of the public health lobby, despite their negative impact on the lifestyles of the majority of drinkers without dependency problems.² By contrast, evidence suggests that high taxes encourage illicit alcohol markets. HMRC estimated the illicit market share in 2020-21 at 17 per cent for beer and two per cent for spirits.³

Because most drinkers – in other words most adults – do not create additional health spending or crime and disorder problems, the case for charging all drinkers with the public spending costs of those problems is very weak. There is no good reason why a law-abiding moderate drinker should pay a greater share of the costs for irresponsible drinkers than a non-drinker. Similarly, there is no good reason why taxes should seek to discourage drinking among people whose drinking is not problematic, especially when taxes have been shown to have very little effect on problem drinkers but nonetheless significantly interfere in the lifestyle choices of moderate drinkers.

Finally, alcohol duties distort patterns of economic activity with negative implications for the nighttime economy and UK supermarket sales which are diverted to lower-tax alternatives such as France.

¹ HM Revenue & Customs, *Reform of Alcohol Duty and reliefs*, 23 September 2022, www.gov.uk/government/publications/reform-of-alcohol-duty-rates-and-reliefs/reform-of-alcohol-duty-and-reliefs, (accessed 23 November 2022).

² Duffy, J.C., and Snowdon, C., *Punishing the majority. The flawed theory behind alcohol control policies*, IEA, June 2014.

³ HM Revenue & Customs, *3. Tax gaps: Excise (including alcohol, tobacco and oils)*, 23 June 2022, www.gov.uk/government/statistics/measuring-tax-gaps/3-tax-gaps-excise-including-alcohol-tobacco-and-oils, (accessed 7 November 2022).

What should be done?

1. Tax alcohol itself instead of the liquid containing it, removing tax distinctions between what the drink is, how it's made and whether it's sparkling or still. This is to come into effect from August 2023 but the alcohol content bands should be widened to aid administrative simplicity and the higher rates should be lowered to further reduce distortions and burdens.
2. If a distinction between high- and low-strength drinks is to be retained, set a single threshold applicable to all drinks irrespective of incidental factors.