

Budget 2020 analysis

March 2020 Budget analysis

Summary

- Alcohol duties were frozen across the board, making this the seventh year out of eight that they have failed to keep up with inflation
- In real terms, beer duty is now 19% lower than in 2012/13; cider and spirits duty 12% lower, and wine duty 3% lower
- These measures have contributed to the growing affordability of alcohol, which in turn leads to greater health harms: recent duty cuts have been linked to over 2,200 additional deaths
- They have also contributed to worsening health inequalities: a disproportionate share of these deaths have occurred in deprived communities
- Cumulatively, recent duty cuts will cost HM Treasury over £1.5 billion in 2020/21, and almost £13 billion over the ten years to 2024/25
- Cutting alcohol duty will do little to support the whisky industry (as over 90% of whisky is exported and not subject to UK excise taxes), nor the pub trade (which will merely be undercut by supermarkets)
- The government also announced a “post-EU exit” review of alcohol taxes starting in the summer. This represents a good opportunity to address the many irrationalities of the current duty system

Overview

This document outlines the decisions taken on alcohol duty in the March 2020 Budget. It places these policies in wider context, taking stock of the impact of seven years of real terms duty cuts on affordability, health, the economy and public finances.

What happened to alcohol duty in the Budget?

In its 11th March Budget, the government made the following announcements:

- Duty on beer, spirits, wine and cider will all be frozen
- It will review potential reforms to the alcohol duty system to be implemented after the Brexit transition period, beginning with a call for evidence this summer

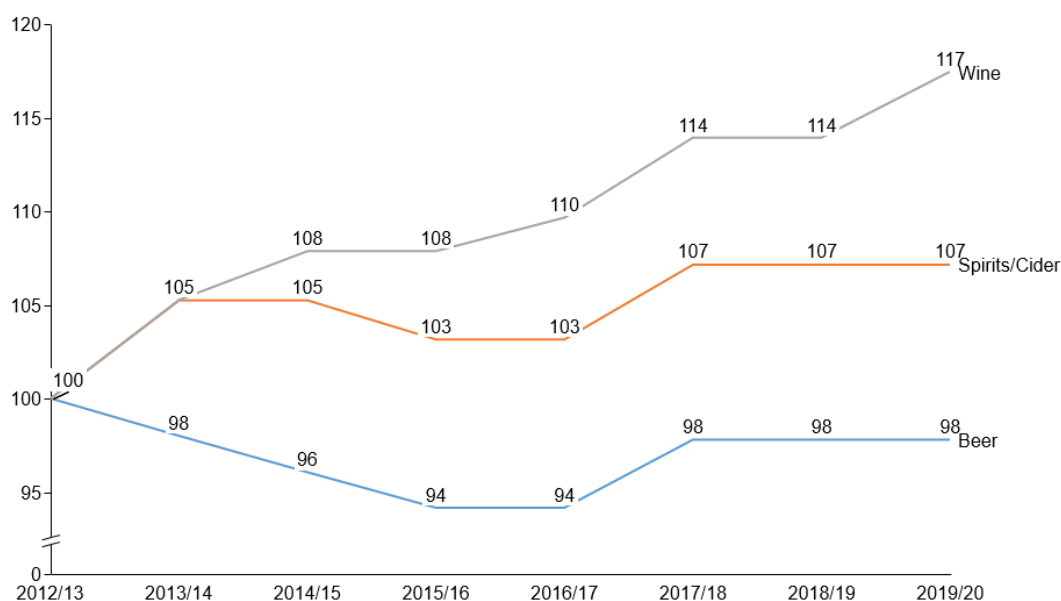
Another year of real terms cuts to alcohol taxes

For the seventh year out of eight, the government announced real terms cuts to alcohol duty. HM Treasury’s plans for the public finances continue to assume that alcohol duty will increase automatically each year in line with inflation [1]. However, with each passing year, alcohol duty looks more and more like fuel duty, where after ten consecutive freezes, the *de facto* expectation is no longer that duty will rise in line with inflation.

Between 2008 and 2012, the alcohol duty escalator ensured that all alcohol duties rose by 2% above inflation each year. However, this policy was scrapped for beer in 2013 and for wine, cider and spirits in 2014. Since then, beer, spirits and cider duty have been cut in real terms in every year with the exception of 2017/18 (when they were increased in line with inflation). Wine duty has been cut by less, but its value has fallen in real terms overall since 2012.

The charts below show the cumulative impact of these measures. In nominal terms (that is, before inflation), beer duty will be 2% lower than in 2012; cider and spirits duty 7% higher; and wine duty 17% higher.

Figure 1: Nominal duty rates, indexed: 2012/13=100¹ [2]

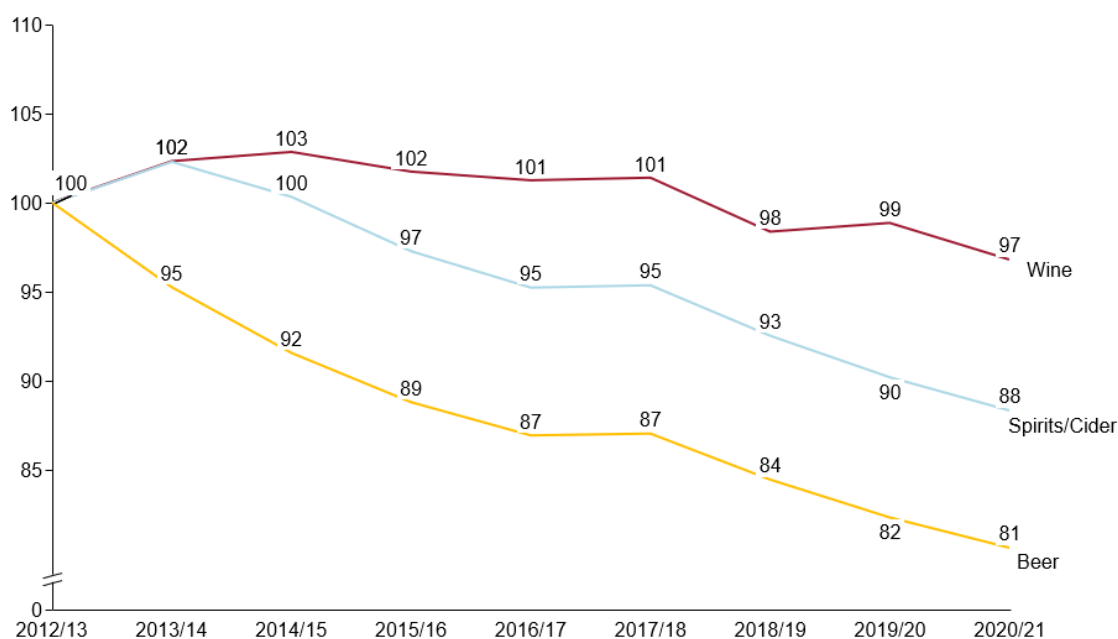


However, inflation has eroded much of the value of alcohol duty. As a result, in 2020/21, in real terms, compared with 2012/13:

- **Beer duty will be 19% lower**
- **Cider and spirits duty will be 12% lower**
- **Wine duty will be 3% lower**

¹ General beer duty; still 1.2%–6.9% ABV cider and perry; 5.5%–15% ABV wine.

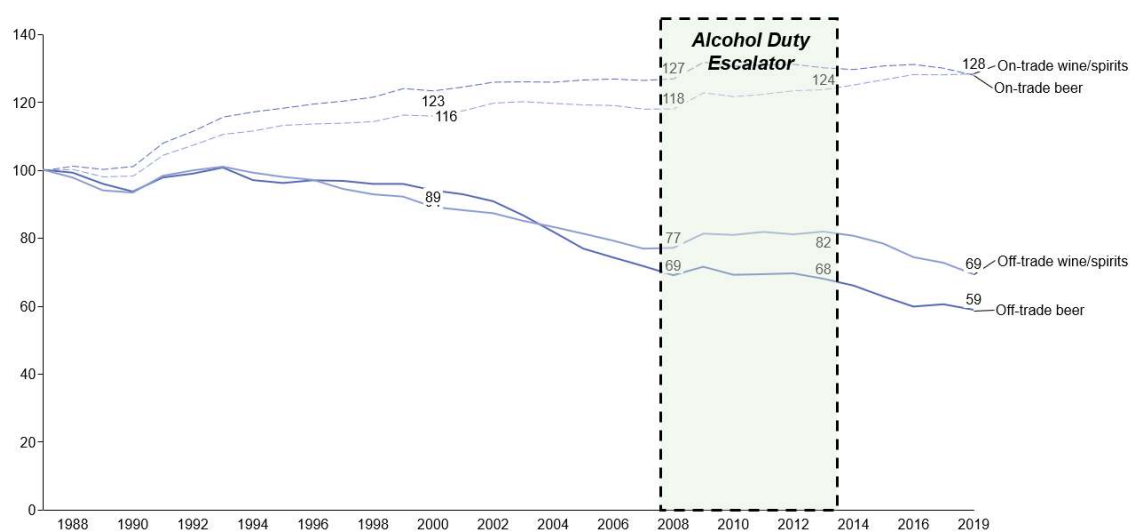
Figure 2: Real duty rates, indexed: 2012/13=100² [2,3]



Falling prices, rising affordability

These duty cuts will contribute to falling prices, at least in the off-trade (supermarkets and off-licences). In real terms, the average price of beer in the off-trade has dropped 41%, and the average price of off-trade wine and spirits 31%, since 1987. Having been held stable by the duty escalator, off-trade prices have tumbled since its repeal: in supermarkets and off-licences, beer is 15% cheaper and wine and spirits 14% cheaper than 2012.

Figure 3: Real Price Index, by beverage type and location, 1987–2019 (1987=100)³ [4]

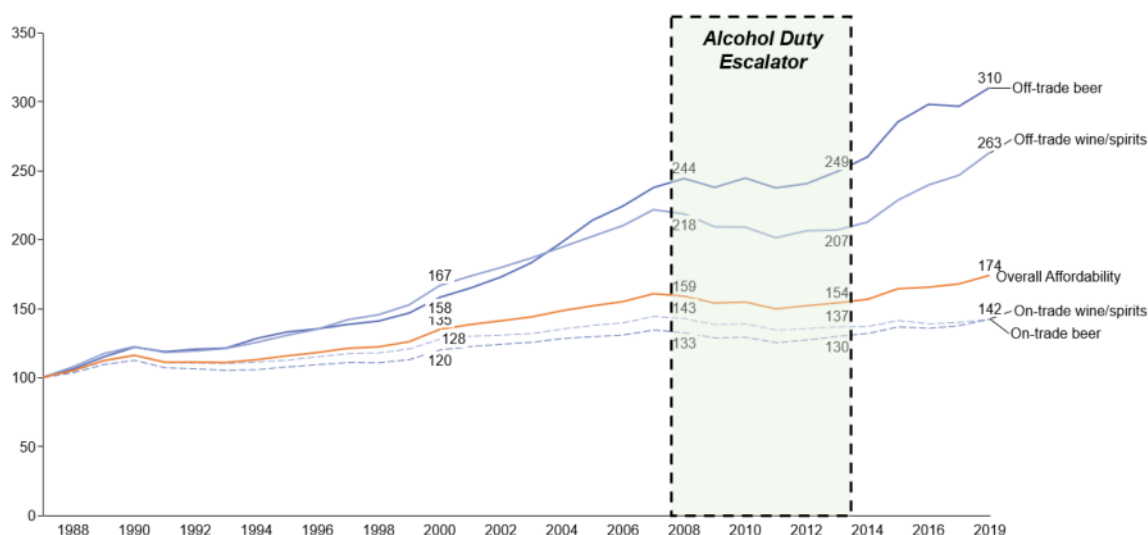


² General beer duty; still 1.2-6.9% ABV cider and perry; 5.5-15% ABV wine.

³ Real Price Index = ratio of alcohol RPI to all-items RPI]

Combined with recovering household incomes, this has led to a significant increase in the affordability of alcohol. Overall, alcohol affordability has risen by 74% since 1987, but the rise in affordability has been particularly dramatic in the off-trade: the affordability of beer in the off-trade has more than tripled, and the affordability of off-trade wine and spirits has increased by 163%. This is deeply concerning because affordability is widely recognised as one of the key drivers of alcohol consumption and harm [5].

Figure 4: Affordability Index, by beverage type and location, 1987–2019 (1987=100)⁴



Lower duty means more deaths, hospitalisations and crime

It is well established that lower alcohol taxes and prices lead to higher levels of consumption, which in turn lead to worse health and social outcomes. Recent estimates from the Sheffield Alcohol Policy Model, which utilises the best available evidence on these relationships, lay bare the consequences of consecutive duty cuts [7]. As a result of policy changes since 2012 (not including those announced in this week's Budget), alcohol consumption is estimated to have risen by 1% overall, resulting in:

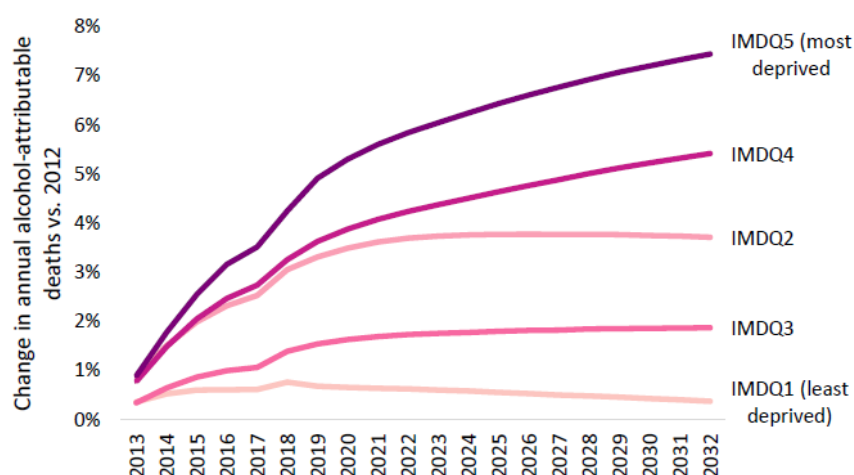
- 2,223 additional deaths in England and Scotland between 2012 and 2019
- 65,942 additional hospital admissions in England and Scotland over the same period
- £341 million in additional costs to the NHS
- Over 100,000 additional alcohol-attributable crimes
- Over 500,000 additional lost days of work, at a cost to the economy of £62 million

⁴ IAS analysis, combining data from ONS [4] and NHS Digital [6].

The harm caused by lower duty disproportionately affects disadvantaged groups

Moreover, the negative impact has been greatest on those living in the most deprived communities, further widening health inequalities. Relative to maintaining alcohol duty at 2012 levels in real terms, the duty cuts up to 2018 are expected to cause alcohol-attributable deaths to rise by 7.4% among the most deprived by 2032, compared with 0.4% among the least deprived.

Figure 5: Modelled impact of recent duty policies on alcohol-attributable mortality [7]



A substantial cost to the public purse

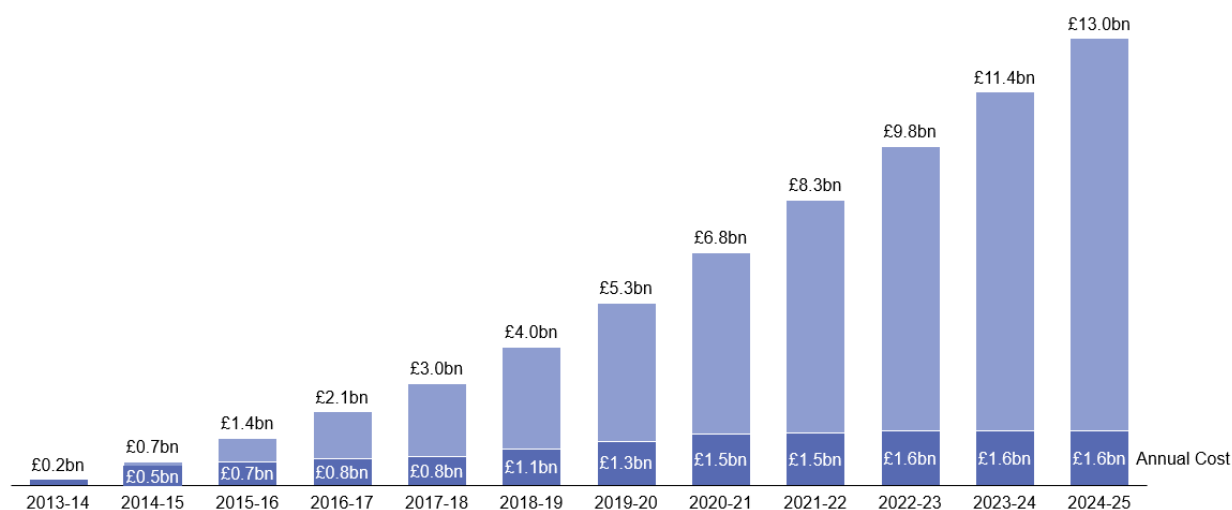
HM Treasury estimates that the cuts to beer, wine, cider and spirits duty in this year's Budget will cost the government around £200 million a year over the next few years (figure 6). Over the next five years, the total cost is estimated to be £1 billion.

Figure 6: Impact of 2020 Budget cuts to alcohol duty on government finances [8]

2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
-£30m	-£190m	-£195m	-£200m	-£205m	-£210m

Added to the cuts in alcohol duty since 2012 outlined above, **the annual cost of recent cuts to alcohol duty will be £1.5 billion in 2020/21. Over the ten years to 2024/25, the total cumulative foregone revenue will climb to £13 billion.** In other words, if the government had stuck to the planned trajectory for alcohol duty in 2012 – that is, to increase all duties by 2% above inflation in 2013/14 and 2014/15, and maintain them in line with inflation every year thereafter – this would have raised another £13 billion for the public finances.

Figure 7: Cumulative impact of alcohol duty cuts since 2012 on government finances⁵ [8,9]



Lower duty isn't the way to help pubs

In his Budget statement, the chancellor said that pubs are ‘the centre of community life. But too many have closed over the last decade’. As a result, he argued, ‘we need to do more’ to support them, which is why he announced relief on business rates, as well as a freeze in beer duty [10].

Yet, while the reduction in business rates is targeted at pubs, cuts in alcohol duty may be counterproductive because they affect prices in supermarkets as much, if not more than, prices in pubs. In a 2018 survey, 89% of North East publicans said that duty cuts had no positive impact on their business, with only 7% claiming to have seen any benefit [11]. By contrast, the stronger bargaining power of supermarkets means they can negotiate a greater share of duty cuts from brewers. This may explain why the gap between prices in the on-trade and off-trade tends to widen when duty is cut (as figure 3 shows). Publicans see cheap supermarket alcohol as the single biggest threat to their businesses [12], yet the cutting of beer duty may enable supermarkets to undercut them further.

Indeed, it is telling that despite the 19% cut in beer duty in recent years, there has been no slowdown in the rate of pub closures. Between 2008 and 2013, the period of the beer duty escalator, the net decline in the number of pubs was 1.5% a year. In the following five years, from 2013 to 2018, the closure rate actually *increased* to 1.9% a year [13]. That is despite a stronger economy, relief on business rates and the pubs code, which should all have somewhat improved the trading environment.

⁵ Duty cuts prior to the 2020 Budget are assumed to cost the government £1.3bn in 2023/24 and 2024/25, the same figure as provided for 2022/23

Lower duty isn't the way to help the whisky industry

The chancellor also made a point in his statement of saying that 'Scotch whisky is a crucial industry' [10]. In order to support it, he promised £1 million to help promote Scottish food and drink exports and £10 million on research and development funding to improve environmental standards in distilleries. As with the duty relief, if the chancellor's objective is to help the whisky industry, such direct aid makes sense.

However, 'to further support the industry', he announced the spirits duty freeze. That makes less sense: over 90% of Scotch whisky is sold outside the UK, and as a result is unaffected by the Budget announcement.⁶ In fact, the biggest beneficiary of lower spirits duty will be producers of vodka, which accounts for 30% of UK spirits sales [16].

The alcohol duty review presents an opportunity to address anomalies in the system

The government offered few details on the announced review of alcohol duties that will begin with a call for evidence this summer. All it said was that it 'recognises the complexity of the current duty system and will review potential reforms to be implemented after the transition period' – that is, from the 1st January 2020, when the UK is no longer bound by European Union (EU) regulations [17].

The review fulfils a commitment from the Conservative party's 2019 election manifesto, where it pledged to 'review alcohol duty to ensure that our tax system is supporting British drink producers' [18]. However, the manifesto does not provide any clues as to what features of the current system fail to support British producers, and so what the target of the review is likely to be.

It is certainly the case that the current structure of alcohol duty is deeply irrational, and that the EU bears significant responsibility.

⁶ According to the Wine and Spirit Trade Association [14], 5.8m nine-litre cases of Scotch whisky were sold in the UK in 2016, which is 53m litres. According to the Scotch Whisky Association [15], 1.2bn 70cl bottles were exported in 2017, which is 861m litres. Though these figures are taken from different years, they indicate domestic sales account for less than 10% of the total market

Figure 8: UK alcohol duty per unit by beverage type⁷

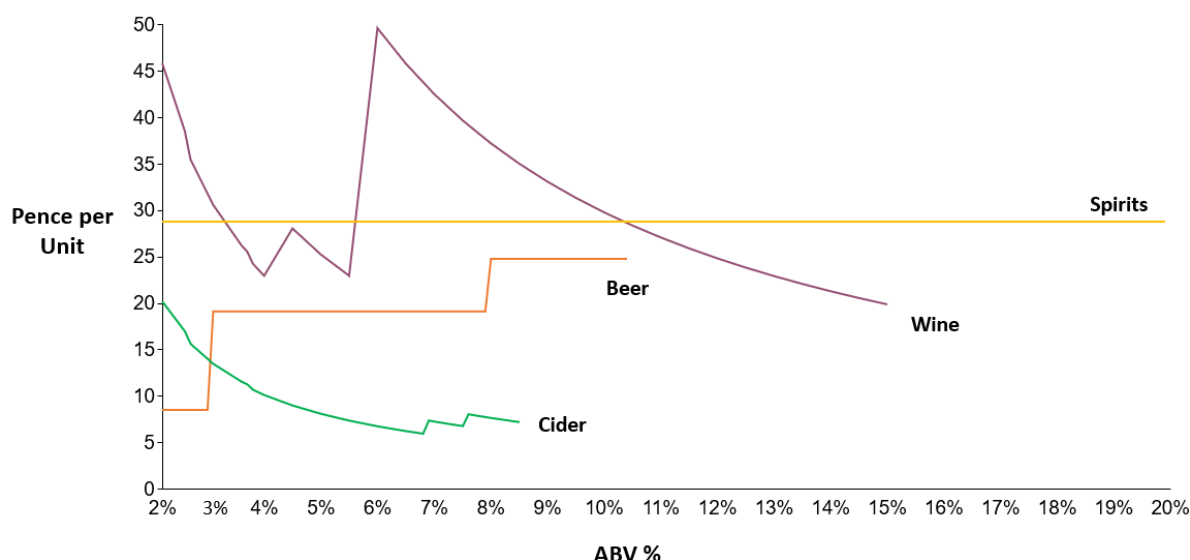


Figure 8 shows current rates of duty per unit of alcohol for different products. It highlights two issues. First, that stronger products do not always attract higher duty rates. Second, that duty rates vary substantially across different drinks.

The first issue is attributable to European Community Directive 92/84/EEC, which requires beer and spirits to be taxed in proportion to their alcohol content, but cider and wine to be taxed according to the volume of liquid sold [20]. Since the same amount of duty must be levied on a litre of wine, whether it is 12% or 14%, or on a litre of cider whether it is 4% or 6%, there is a perverse incentive to produce stronger products in these categories to attract a lower rate of duty per unit. The second issue – the discrepancy between different drinks types – is purely the result of UK Government policy.

The review offers an opportunity to rationalise duty structures. There is broad consensus that the government should ensure that higher strength products should be always be taxed more than lower strength products. Indeed, the previous government explicitly endorsed the principle that ‘alcohol duties should be related to the alcoholic strength of drinks’ [21]. It is also widely agreed that levels of duty on cider are unjustifiably low [16, 22] (although obviously the cider industry will dispute that [23]).

There is likely to be more debate over whether spirits should continue to be taxed at a higher rate of duty per unit than other products. The fact that the promised review appears in the ‘Delivering for Scotland’ section of the Conservative manifesto, and follows the statement that ‘tax on each bottle of Scotch sold in this country represents almost three quarters of its price’ suggests that the government may be seeking to reduce duty on spirits [18]. Yet both the Social Market Foundation [16] and Institute for Fiscal Studies [22] have observed that heavier drinkers tend to favour cheap spirits. The Alcohol Health Alliance notes that spirits

⁷ IAS analysis, duty rates taken from HMRC [19]

have lower production and distribution costs than other drinks, and as a result, charging the same rate of tax on spirits as other products would result in a lower retail price for spirits [24].

Another question that is likely to be raised by the duty review is whether the on-trade should face lower rates of duty than the off-trade, as a number of MPs and the Social Market Foundation have both suggested [16, 25].

IAS recommendations

1. Raise alcohol duty on all products by 2% above inflation

Alcohol duty has been eroded by successive real terms cuts. Affordability has risen to high levels by historical standards, and at a cost to public health. Above inflation increases in duty are necessary to reverse this trend and ensure progress in reducing alcohol harm.

2. Introduce scaled volumetric taxation

In the forthcoming duty review, the government should move to a system of scaled volumetric taxation, whereby products of the same strength face the same rate of duty per unit, but duty per unit is higher for stronger drinks, such as spirits. This will ensure that taxes are higher on the products associated with greatest health harms.

3. Review the process by which alcohol duty is set

To depoliticise the setting of alcohol duty rates and ensure that it is done on the basis of the best available evidence, alcohol duty should no longer be revised each year in the Budget. Instead, as suggested by the Social Market Foundation, it should be revalued periodically on the basis of recommendations from an independent expert body, convened to collect the latest evidence and review alcohol duties to ensure they are proportionate to the social harm caused by alcohol [26].

4. Implement a minimum unit price (MUP) for all alcoholic products in England and Northern Ireland

MUP is needed to deal with the particular problems caused by the cheapest strongest drinks favoured by the heaviest drinkers and is complementary to reforming the alcohol duty structure for other products. Though the government has commissioned Public Health England to review the evidence of the impact of MUP in Scotland, we believe that the evidence is already strong enough for action, and further delay is only likely to result in more lost lives, higher costs to the taxpayer and damage to the economy.

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Alliance House
12 Caxton Street
London SW1H 0QS

Telephone | 0207 222 4001
Email | info@ias.org.uk
Twitter | [@InstAlcStud](https://twitter.com/InstAlcStud)
Web | www.ias.org.uk

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