

Tax after coronavirus

Written Submission from the Institute of Alcohol Studies

September 2020

About IAS

The Institute of Alcohol Studies is an independent institute bringing together evidence, policy and practice from home and abroad to promote an informed debate on alcohol's impact on society. Our purpose is to advance the use of the best available evidence in public policy decisions on alcohol. For more information please visit www.ias.org.uk

Summary

- Higher alcohol duty can address the current pressures on government finances and save lives. It provides a 'double-dividend' for the Exchequer, as it simultaneously increases revenue and lowers expenditure on managing alcohol-related harm. This is particularly important as this harm places a substantial burden on police, hospitals, emergency services, and social care – the essential services we need to respond to the COVID-19 crisis.
- Alcohol duty has been cut significantly in recent years, at a cost to the government of £1.3 billion in forgone revenue in 2019/20 alone – enough to pay the salaries of over 41,000 nurses.
- As well as raising revenue alcohol duty is a public health measure, 2% above inflation increases from 2020-2032 would save 4,700 lives in England alone.
- The revenue raised from alcohol duty falls well short of the societal harm alcohol causes: at best alcohol duty currently accounts for around half of the societal costs of alcohol.
- Increasing alcohol taxes to raise revenue is popular – public approval of their use is exceeded only by cigarette taxes, as shown by a recent YouGov poll.
- There is scant evidence that alcohol duty cuts are an effective policy for supporting pubs.
- As well as raising the level of alcohol taxes, the government should reform their structure which contains several irregularities and perverse incentives.
- There is an upcoming opportunity to improve alcohol duty, with the government soon to launch a consultation on reforming the alcohol duty system.

What are the major long-term pressures on the tax system in the UK, including those arising from changes in working practices, demographics, the environment and other factors? How are these affecting the efficiency of the tax base and the overall level of demand for public services?

1. HM Treasury is likely to face several challenges in the coming years, with increasing pressure on public services – both from an ageing population and from demands for greater investment. At the same time, it may be reluctant to raise taxes that might weaken the economy or harm living standards. The enormous fiscal response to COVID-19 has added substantially to these long-standing pressures.

2. Alcohol duty can play a role in resolving this dilemma as it has two complementary effects on government finances. First, it is a direct source of revenue. Second, through its impact on consumption, it reduces the costs of alcohol-related harm and the financial consequences of managing it.
3. Firstly, on the revenue from alcohol duty. In 2013, the alcohol duty escalator (2% above inflation increases in alcohol duty) was ended early and alcohol duty has been cut in real terms in seven of the subsequent eight Budgets. HM Treasury estimates that these changes cost the government £1.3 billion in 2019/20. The cumulative cost since 2013/14 is £5.3 billion.¹ To contextualise these numbers, £1.3 billion is enough to pay the salaries of over 41,000 nurses.²

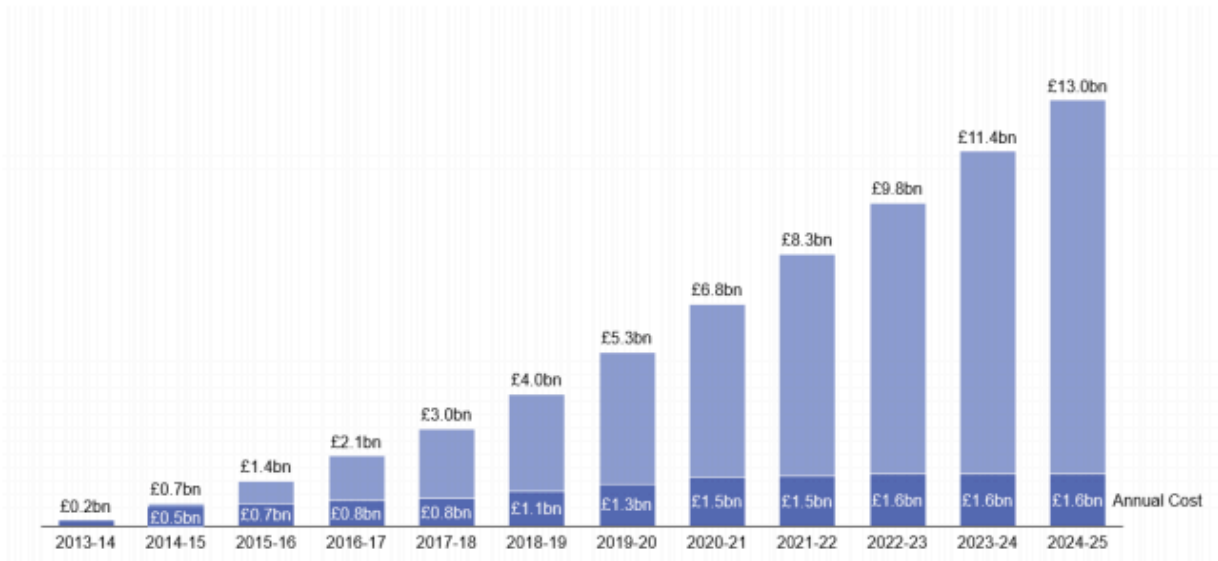


Figure 1 Cumulative and annual impacts of alcohol duty cuts since 2012, based on Treasury estimates. Available at: Institute of Alcohol Studies (2020). [March Budget analysis](#)³

4. Secondly, increasing alcohol duty is one of the three most cost-effective ways of reducing alcohol harm, as recommended by the World Health Organization.⁴ The UK experiences a substantial amount of alcohol harm.
 - a. In England, an estimated 68 people die every day from an alcohol-related cause and it is the leading risk factor for death, ill-health, and disability amongst 15-49-year-olds.⁵
 - b. Quantifying this cost is difficult. In 2016, the overall societal harm of alcohol was estimated at between £27-£52 billion.⁶ In 2012, the UK Government estimated the external cost of alcohol to England, i.e. those borne by someone other than the drinker, to be £21 billion.⁷ It is crucial not to forget that behind any financial quantification there is enormous personal, family, and social tragedy.
 - c. On the impact on public services specifically, our work estimated that alcohol-related incidents use up 25% of A&E doctors' time, 37% of ambulance staff's, and consume a staggering 53% of police time.⁸ Furthermore, work from Scotland estimated that alcohol's impact on social care was of a similar magnitude to its costs to the health system.⁹ It is notable that these are some of the core services that we are depending on during the pandemic.

- d. Alcohol harm is getting worse. In England, the number of alcohol-related hospital admissions has increased considerably in recent years, rising to nearly 1.3 million in 2018/19.¹⁰ The enormous social, emotional, and economic stresses brought by COVID-19 risk further adding to this toll. A number of surveys have found that some people have been drinking more,¹¹ and work from University College London published in Public Health England's *wider impacts of COVID-19 on health* tool indicates a rise in higher risk drinking since lockdown.¹²
 - e. The cuts in alcohol duty have added to this harm. The University of Sheffield modelled the impact of alcohol duty changes between 2012 and 2019 in England and found that they have led to almost 2,000 additional deaths and more than 61,000 hospital admissions at a cost to the NHS of £317 million. They also contributed to 111,000 additional crimes and cost £58 million in workplace absences.¹³
 - f. These harms are not evenly distributed. Worldwide, alcohol is estimated to account for up to 27% of the socio-economic differences in mortality.¹⁴ The changes in alcohol duty have widened health inequalities within the England.¹⁵
5. Fortunately, increasing alcohol duty could reverse this pattern. The University of Sheffield estimated that annual 2% above inflation increases in alcohol duty between 2020 and 2032 could save 4,700 lives and prevent 160,000 hospital admissions in England. This would save NHS England £794 million, and the broader economy £156 million in reduced workplace absences. The benefits are also greater amongst the most deprived quintiles, thus leading to a reduction in health inequalities.¹⁶

Do these pressures need to be met with tax reform, and if so, is this the right time for reform?

6. Now is a particularly opportune time for the Treasury Select Committee to consider alcohol taxes.
- a. Firstly, there is clear current appetite for reform: the government has announced a consultation on reforming alcohol duty structures, to be launched in September.
 - b. Secondly, leaving the European Union – which regulates aspects of the structure of alcohol taxes in member states – presents an opportunity for structural reform.
 - c. Thirdly, there is a real risk that COVID-19 may lead to a surge in alcohol-related harm. While the impact of the crisis on overall consumption is complex and total consumption may have decreased,¹⁷ as discussed above there are indications of increases in higher risk drinking.¹⁸ Further, there is a significant risk that alcohol consumption will surge as people experience the ongoing economic insecurity, bereavement, and social disruption.¹⁹
 - d. Fourthly, raising alcohol duty is among the most popular ways to raise revenue among the UK public. In a YouGov poll prior to the 2020 March Budget, alcohol duty was the joint second most popular tax for the Chancellor to increase to raise revenue. Only increasing tobacco duty was more popular, with alcohol duty as popular as corporation tax, and more popular than increasing capital gains tax, income tax, national insurance, or VAT amongst others.²⁰

What overall level of taxation can the economy bear without undesirable or counterproductive harm to economic growth?

7. We do not have the expertise to answer this question with respect to the overall burden of taxes, but there is good reason to think alcohol is currently undertaxed.
8. Beginning from first principles, most economists would agree that taxes should account for 'externalities' – when a behaviour has impacts beyond the individual. Over the past 5 years, alcohol duty has only raised between £10.5-£12.1 billion annually.²¹ Given that, as discussed above, alcohol causes external costs to society to England of at least £21 billion annually, at best alcohol duty accounts for around half the external costs of alcohol.
9. Alcohol has previously been more expensive and paid a higher rate of duty:
 - a. Since 1987, the overall affordability of alcohol has increased by 74%. In the off-trade, the affordability of beer has more than tripled and the affordability of wine and spirits has risen by 163%.²²
 - b. Since 2012/13, duty on beer has fallen by 19%, for cider and spirits by 12%, and for wine by 3% in real terms.²³
10. Alcohol itself has negative economic consequences, due to its impact on premature mortality and productivity. 167,000 working years of life were lost to alcohol in England in 2015 – this is more than the ten most common causes of cancer combined.²⁴ Further, our work found that the cost of hangovers to the UK is likely between £1.2 and £1.4 billion annually.²⁵ Higher alcohol duty would lower these drags on productivity, as well as reducing this human cost.
11. There is little evidence to suggest higher alcohol taxes lead to job losses. A report from the Social Market Foundation found that relatively few people in Great Britain, just 27,000 in 2017 (or 0.1% of the workforce) are employed directly in alcohol production. The relationship between these jobs and domestic consumption is not straightforward, as the UK both imports alcohol from overseas and exports our domestically produced alcohol.²⁶
12. The fate of pubs is a central consideration in the debate about alcohol taxes. The sector has faced many closures in recent years, and the economic consequences of COVID-19 might exacerbate this trend. However, the link between alcohol taxes and pub closures is, at best, tenuous.
 - a. The ending of the alcohol duty escalator made no observable difference to the rate of pub closures. Between 2008 and 2013, alcohol duty rose by 2% above inflation and the net decline in pubs was around 1.5% a year. In the five years following the ending of the alcohol duty escalator, when alcohol duty was regularly cut or frozen, the rate of pub closures was 1.9%.²⁷
 - b. This matches the experience of publicans: a survey in the North East of England found that 89% of them reported that duty cuts had not helped their business. When asked to identify the main cause of pub closures, only 4% attributed them to alcohol taxes, whereas 51% attributed them to cheap alcohol in off-licences and supermarkets.²⁸ Notably, alcohol duty cuts also make off-licence alcohol cheaper.
 - c. By contrast, the period of the alcohol duty escalator was in fact one of the few times since the late 1980s where the gap between the affordability of on-trade and off-trade affordability of alcohol did not substantially widen.²⁹

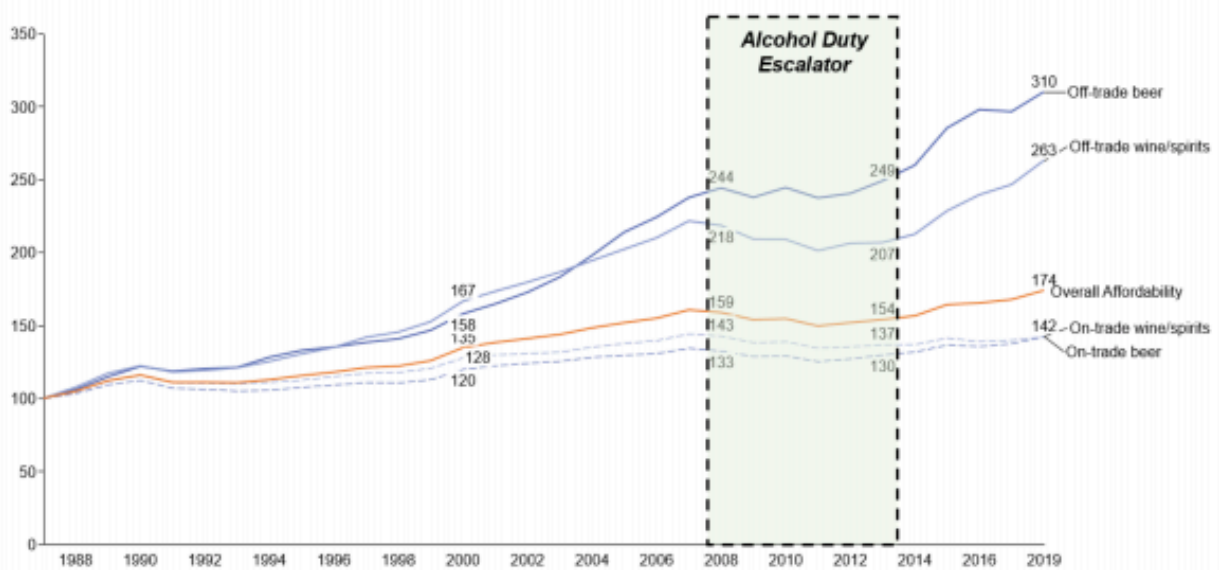


Figure 2 Affordability index by alcohol type in the on-trade and the off-trade from 1987 until 2019. Available at: Institute of Alcohol Studies (2020). March Budget analysis³⁰

13. Finally, looking at the economy overall, research has found that it is plausible that an increase in alcohol taxes, if it was used to fund an increase in spending on public services, would actually stimulate the economy and lead to an increase in employment.³¹ Econometric analysis shows that US states with higher alcohol taxes have higher levels of economic growth.³²
14. In summary, there are many reasons to believe higher taxes on alcohol are sustainable and economically beneficial.
 - a. From the perspective of economic theory, alcohol taxes currently fail to cover the externalities of harmful drinking.
 - b. By historical standards, rates of alcohol duty have been cut and affordability is at unprecedented levels.
 - c. Alcohol acts as a drag on productivity.
 - d. The relationship between alcohol taxes and employment, even in alcohol production, is not straightforward.
 - e. Alcohol duty's impact on pubs is even less clear.
 - f. Taken together, these support the argument that the economy could support, and would even benefit from, higher alcohol taxes.

Which areas of the tax system are most in need of reform, and which are best left alone? What are the areas for simplification?

15. As is clear from the above, the overall level of alcohol duty needs to be reformed. But even aside from the question of the overall level, there is scope to reform and simplify the current system, which is both complex and can cause additional harm. Not only are different types of alcohol taxed at different rates, they are also taxed in fundamentally different ways.

- a. Beer and spirits are taxed by volume of alcohol whereas cider and wine are taxed by volume of liquid. This means the alcohol in stronger cider and wine is taxed at a lower rate than the alcohol in their weaker counterparts.

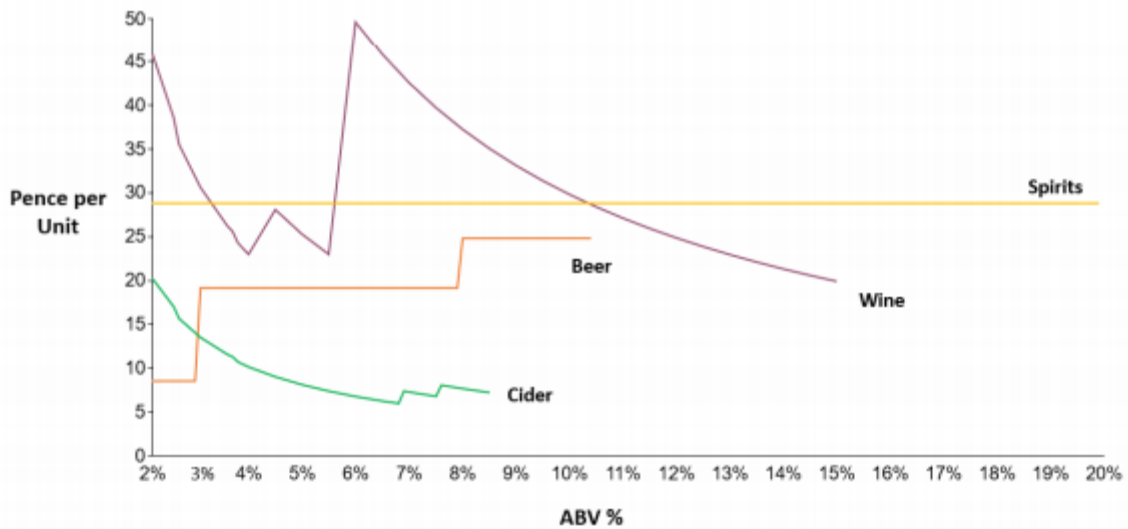


Figure 3 Alcohol duty rates per unit alcohol by beverage type and strength. Available at: Institute of Alcohol Studies (2020). March Budget Analysis³³

16. This system creates perverse incentives. In particular, it encourages the production of cheap, high-strength cider, a product particularly closely linked to harmful drinking.
- A 2.5l bottle of 7.5% ABV cider, which contains the equivalent of 19 shots of vodka, in a single bottle pays just under £0.07 per unit in alcohol duty. In contrast, a pint of 4% beer is taxed at a rate of £0.19 per unit, nearly three times more.³⁴
 - The consequences of such artificially cheap cider can be dramatic. Research shows that such products are commonly consumed by those on liver wards.³⁵
 - Homelessness charity Thames Reach found that 'super strength' drinks were directly responsible 10 out of 16 deaths recorded amongst their hostel residents.³⁶
17. The alcohol duty system could be reformed to make it simpler, fairer and less harmful. An effective alcohol duty system should contain the following key elements:
- The overall level of duty should be set at a level proportionate to the societal harm alcohol causes.
 - All same-strength drinks should pay the same amount of duty.
 - Stronger drinks should pay a higher level of tax per unit alcohol than weaker drinks, in order to:
 - Ensure that high-strength drinks are more expensive.
 - Encourage producers to reformulate their products to lower strengths.

What is the best way to tackle tax reform, including what changes might be needed at HMRC to support implementation, and how should the Government consult with stakeholders and parliament?

18. Alcohol has enormous consequences for individuals, families, and communities. A conversation about how to effectively tax alcohol is incomplete without considering these perspectives.
19. It is therefore essential for HMRC and HM Treasury to consult with public health bodies and wider society when considering alcohol duty and other taxes with significant health and social consequences.
20. The alcohol industry has a clear conflict of interest and we believe that they should not be involved in the development of public health policies, including alcohol duty.

Institute of Alcohol Studies September 2020

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- ¹ Institute of Alcohol Studies (2020). March Budget analysis <http://www.ias.org.uk/uploads/pdf/IAS_reports/sb26032020-1.pdf>
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 - ⁴ World Health Organisation (2017). Tackling NCDs: "best buys" and other recommended interventions for the prevention and control of noncommunicable diseases <<https://apps.who.int/iris/handle/10665/259232>>
 - ⁵ Public Health England (accessed March 2020). Local alcohol profiles for England <<https://fingertips.phe.org.uk/profile/local-alcohol-profiles>>; Public Health England (2016). The public health burden of alcohol and the effectiveness and cost-effectiveness of alcohol control policies <<https://bit.ly/3diAtO1>>
 - ⁶ Burton, R. et al. (2016). A rapid evidence review of the effectiveness and cost-effectiveness of alcohol control policies: an England perspective. The Lancet. <[https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(16\)32420-5/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(16)32420-5/fulltext)>
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