BRIEFING

March 2021 Budget Analysis

April 2021 | www.ias.org.uk | @InstAlcStud

Disclaimer:
If You find any information in our that is inaccurate or offensive for any reason, You are free to contact and inform us any moment, at info@ias.org.uk. We will consider requests to remove / amend information but we are not obligated to or so or to respond to You directly. Beyond the date of publication, we do not ensure that the information in this briefing is correct, we do not warrant its completeness or accuracy; nor do we promise to ensure that the briefing remains available on our website or that its contents are kept up to date. Please view the Terms and Conditions page of our website for more information.

***

March 2021 Budget Analysis

Summary

- Alcohol duties were frozen across the board in the March 2021 Budget, making this the eighth year out of nine that duty has failed to keep up with inflation.
- In real terms, beer duty is now 21% lower than in 2012/13, cider and spirits duty 13% lower, and wine duty 5% lower.
- Cuts and freezes to alcohol duty have contributed to the growing affordability of alcohol, leading to greater health harms: duty cuts between 2012-2019 have been linked to over 2,200 additional deaths.
- Cumulatively, recent duty cuts will cost the Treasury over £1.8 billion annually.
- No further announcements were made at the Budget about the ongoing review of alcohol duty.

What happened to alcohol duty in the Budget?

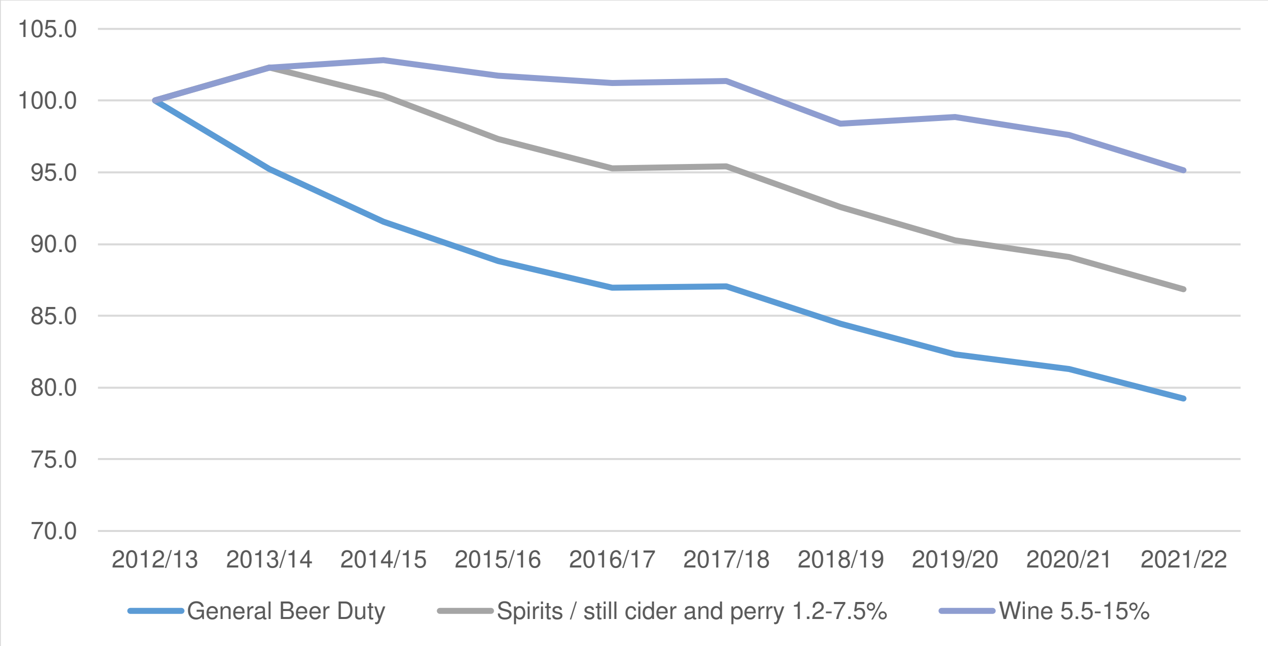
The Government announced a freeze on all duty on beer, spirits, wine and cider in the 3rd March Budget. **This is the eighth year out of nine that the Government has announced real terms cuts to alcohol duty**.

While in place, the alcohol duty escalator ensured that all alcohol duties rose by 2% above inflation each year until it 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 every year except 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. In 2021/22, in real terms, compared with 2012/13:

- **Beer duty will be 21% lower**
- **Cider and spirits duty will be 13% lower**
- **Wine duty will be 5% lower**

Figure 1 below shows the cumulative impact of duty cuts.

Figure 1: Real duty rates, indexed: 2012/13=100[1]



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. Estimates from the Sheffield Alcohol Policy Model, which utilises the best available evidence on these relationships, lay bare the consequences of consecutive duty cuts.[2] As a result of changes to alcohol duty policy between 2012-2019, 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

A substantial cost to the public purse

The Treasury estimates that the cuts to beer, wine, cider and spirits duty in this year's Budget will cost the Government over £300 million a year over the next five years (figure 2). In the period up to 2025-26, the total cost is estimated to be £1.7 billion.

Figure 2: Impact of 2021 Budget cuts to alcohol duty on government finances[3]

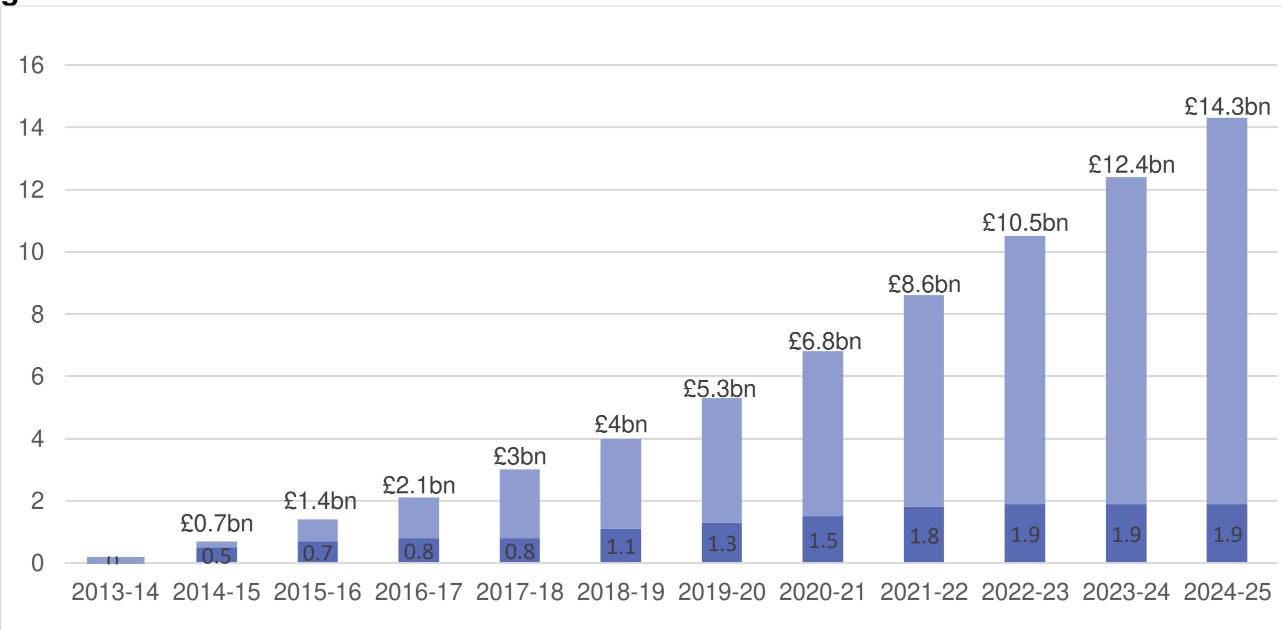
2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-£45m	-£315m	-£320m	-£325m	-£340m	-£350m

Added to the cuts in alcohol duty since 2012 outlined above**, the annual cost of recent cuts to alcohol duty will be more than £1.8 billion in 2020/21. By 2024/25, the total cumulative foregone revenue will reach £14.3 billion.** In other words, if the Government

[1] HM Revenue & Customs. Alcohol Duty Statistics Tables (January 2020).
Office for Budget Responsibility (2021) Economic and fiscal outlook – supplementary economy tables.
[2] Angus, C. and Henney, M. (2019) Modelling the impact of alcohol duty policies since 2012 in England and Scotland. The University of Sheffield and Institute of Alcohol Studies
[3] HM Treasury (2021) Budget 2021:Protecting the Jobs and Livelihoods of the British People.

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 £14.3 billion for the public finances.

Figure 3: Cumulative and annual impact of alcohol duty cuts since 2012 on government finances[4]



The ongoing alcohol duty review is a chance to address anomalies

There was no announcement at the 2021 Budget about the ongoing review of alcohol duty. The initial call for evidence in the review was issued by the Government in October 2020. The call for evidence acknowledges that the current system is "highly inconsistent", setting out its aims to reform alcohol taxation in order to:

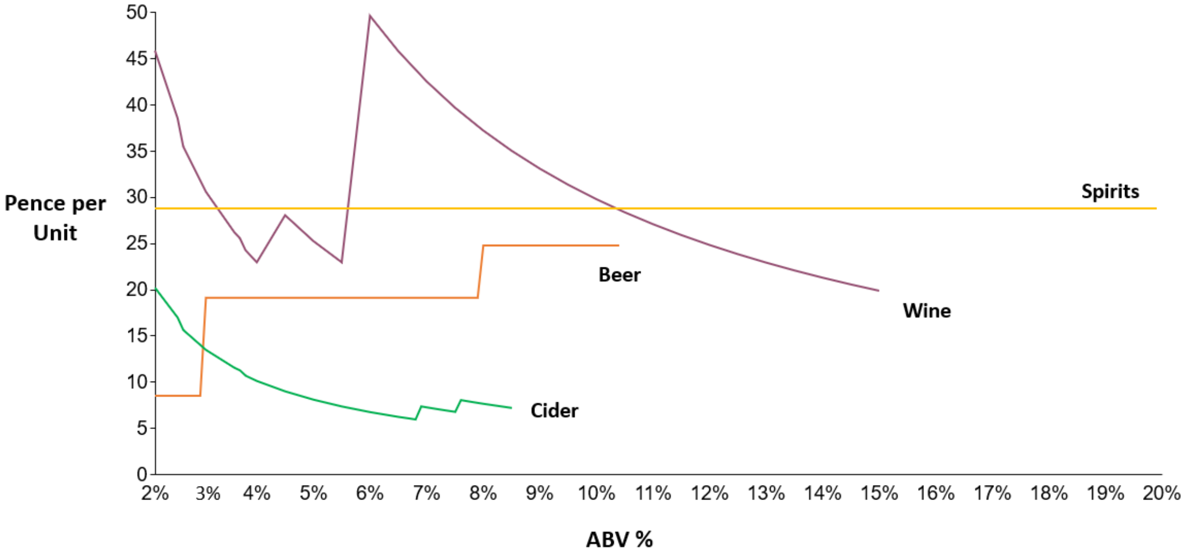
a) Simplify the current complicated system;
b) Make the basis of alcohol taxation more economically rational, with fewer distortions and arbitrary distinctions; and,
c) Reduce the administrative burden on producers when paying duty and complying with excise requirements.[5]

The inconsistencies within and between alcohol product types are illustrated in Figure 4 below.

---

[4] Ibid.
Institute of Alcohol Studies (2020) Budget 2020 Analysis
[5] HM Treasury and HMRC (2020) Alcohol Duty Review, Call for Evidence

Figure 4: UK Alcohol duty per unit by beverage type[6]



The call for evidence sought views on how well the current system meets the Government's aims of raising revenue and protecting public health. In responding to the duty review, IAS recommended that drinks should be taxed on the basis of strength rather than product type, with higher strength drinks taxed more heavily than weaker drinks through a formula-based strength escalator. There is clear evidence that strong, cheap drinks are drunk by the most harmful drinkers, with 40% of alcohol sold below 50p per unit consumed by the 4% of the population who drink at higher-risk levels.[7] A strength escalator could help to encourage reformulation of products to lower strengths. There is some evidence of reformulation in response to MUP in Scotland.[8]

The call for evidence also considered the issue of whether alcohol sold in the on-trade should face a lower level of duty than that sold in the off-trade. This has been recommended by the Social Market Foundation and, more recently, a number of MPs have written to the Chancellor asking for a lower rate of duty on draught beer.[9] There is evidence that a higher rate of duty for the off-trade would have health benefits, with harmful and hazardous consumption more strongly associated with off-trade alcohol across all beverage categories.[10]

We further recommended that the level of alcohol duty rates should be set on the basis of the best available evidence and automatically uprated, instead of being reviewed annually at the Budget. As noted above, the lack of automatic indexing of duty has allowed duty to lose value over time, leading to greater health harms. These harms are experienced disproportionately by the poorest in society.[11] We therefore recommend that duty rates should be indexed, with rates regularly reviewed by an independent, expert body in a similar model to the Low Pay Commission.

---

[6] Graph taken from HM Treasury and HMRC (2020) Alcohol Duty Review, Call for Evidence
[7] Sheffield University Appraising the effect of implementing local Minimum Unit Pricing on alcohol consumption and health in the North West of England.
[8] Alcohol Health Alliance UK (2020) Small change: alcohol at pocket money prices
[9] Corfe S. (2019) Pour decisions? The case for reforming alcohol duty. Social Market Foundation.
A copy of the MP letter to the Chancellor is available here.
[10] Bhattacharya et al (2018) How dependent is the alcohol industry on heavy drinking in England? Addiction
[11] Angus, C. and Henney, M. (2019) Modelling the impact of alcohol duty policies since 2012 in England and Scotland. The University of Sheffield and Institute of Alcohol Studies