

BRIEFING

IAS Institute of
Alcohol Studies

October 2021 Budget Analysis

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Summary

- In the October 2021 Budget there were two announcements:
 1. A new alcohol duty system was announced
 2. All alcohol duty rates were frozen for another year
- 1. The Chancellor proposed a new alcohol duty system to come into effect from 2023. In the new system, all products would be taxed according to their strength
 - This is a sensible approach and the right direction towards improved public health, as long as the tax rates are set at an appropriate level
 - Cider is still being preferentially treated with lower rates than the same strength beer, which is likely to continue to cause harm
- 2. Alcohol duties were frozen across the board once again, making this the ninth year out of ten that duty has failed to keep up with inflation
 - In real terms, beer duty is now 28% lower than in 2012/13, cider and spirits duty are 21% lower, and wine duty is 13% lower
 - Cuts and freezes to alcohol duty have contributed to the growing affordability of alcohol, leading to greater health harms: changes in alcohol duty policy between 2012-2019 have been linked to over 2,200 additional deaths
 - Cumulatively, duty cuts will cost the Treasury over £16.2 billion from 2013-2027

Briefing chapters:

1. Alcohol duty reform

- a) Why is the system being reformed?
- b) What are the key changes?
- c) What effect will the reform have?
- d) Public health concerns

2. The continued freeze of alcohol duty

- e) Lower duty means more deaths, hospitalisations and crime
- f) A substantial cost to the public purse
- g) Lowering duty does not help pubs

What happened to alcohol duty in the Budget?

In the October 2021 Budget there were two key announcements:

1. The alcohol duty system would be reformed from February 2023
2. All alcohol duty rates will be frozen for another financial year

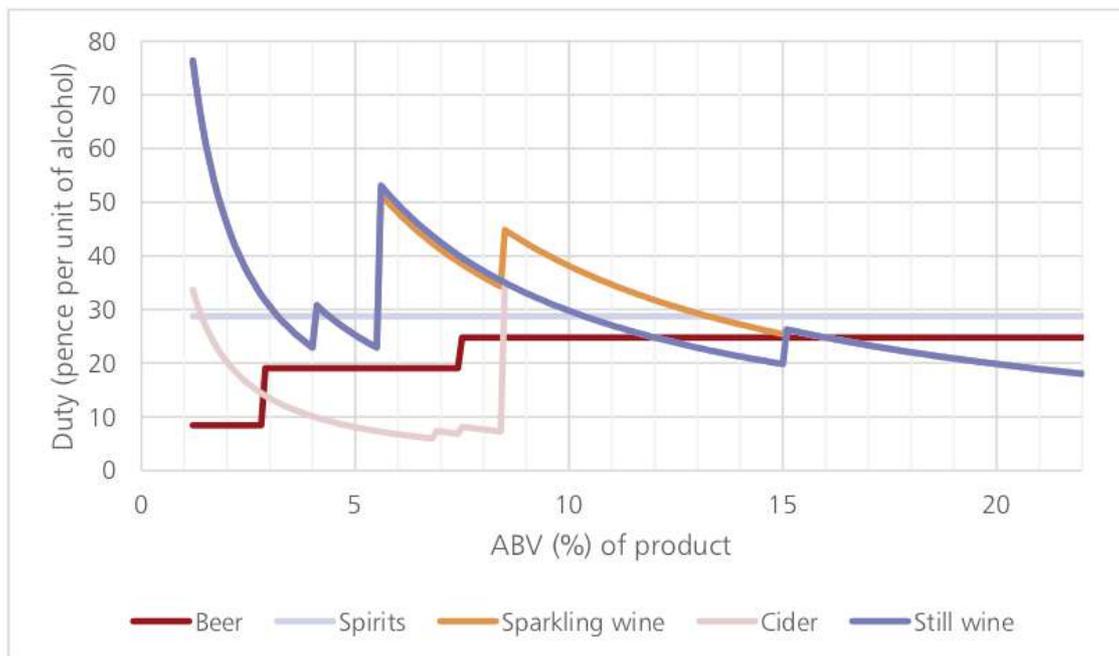
Alcohol duty reform

In the Autumn 2021 Budget, the Chancellor Rishi Sunak announced that the Government will “radically simplify” the alcohol duty system by taxing all products in relation to their alcohol content and reducing the number of different duty rates from 15 to 6.¹ This announcement follows on from a call for evidence on reforming alcohol duty, and is supposed to come into effect from 01 February 2023. The proposed reforms are open for consultation until 30 January 2022.²

Why is the system being reformed?

When outlining the proposed new system, the Government acknowledged that the UK’s current duty system is “an outdated system full of historical anomalies”.³ This is partly due to EU directives that mean some products are taxed based on their volume of liquid (such as cider and wine), whereas other products are taxed by strength (spirits and beer). Figure 1 below highlights these anomalies:

Figure 1: Current duty rates in pence per unit⁴



¹ HM Treasury [Autumn Budget and Spending Review 2021](#) p.83

² UK Government (2021) [The new alcohol duty system: consultation](#) – closes 30 January 2022

³ HM Treasury [Autumn Budget and Spending Review 2021](#) p.83

⁴ HM Treasury (2021) [The new alcohol duty system: Consultation](#) p.30

In the Government's announcement of the reform it stated that the aims of the new system are to⁵:

1. Be simpler, with a reduced number of duty bands based on a common method across all products
2. Be fairer and more consistent
3. Spur innovation and remove anomalies that discourage product development
4. Support public health by focussing on products that cause the highest harm
5. Support the on-trade sector

What are the key changes?

In the new system, all products will be taxed according to their strength within four strength bands. Table 1 shows those four bands and the amount of duty charged per litre of pure alcohol for each product. For instance:

- All products between 1.3-3.4% ABV will be charged at £8.42 per litre of pure alcohol
- Beer of strength 3.5-8.4% ABV will be charged at £19.08 per litre of pure alcohol, whereas cider of the same strength band will only be charged at £8.78, and wine & spirits at £22.50
- All products between 8.5% and 22% will be charged at £25.88 per litre of pure alcohol
- All products above 22% will be charged at £28.74 per litre of pure alcohol

Table 1: New duty rates (per litre of pure alcohol) from 1 February 2023⁶

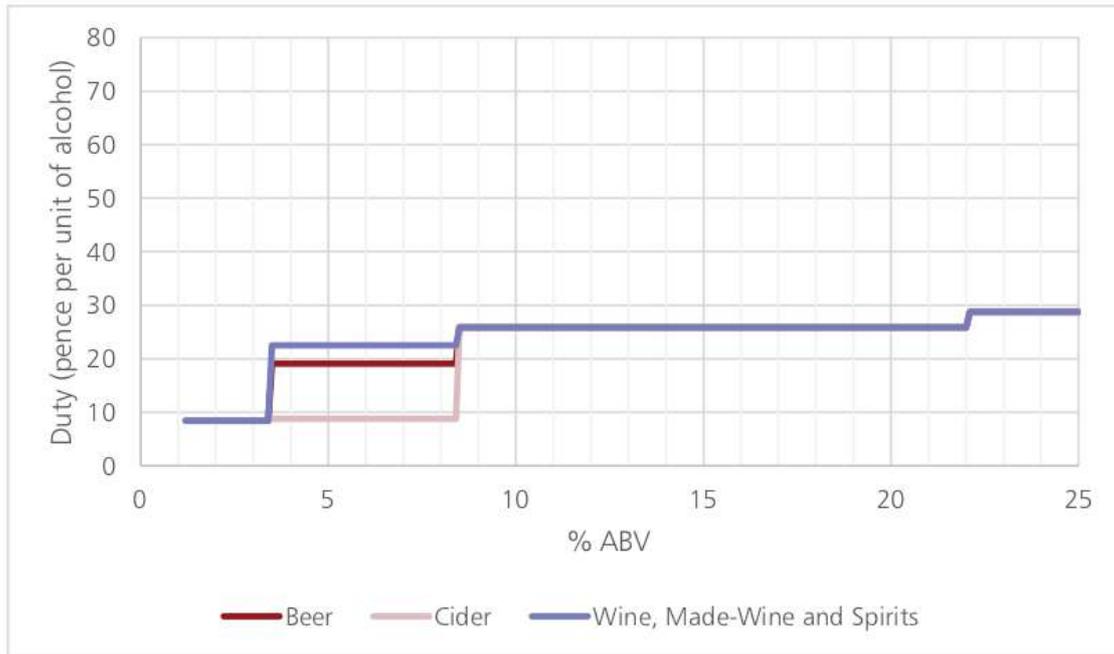
ABV	Beer	Cider	Wine, Made-Wine and Spirits
0-1.2%		Nil	
1.3-3.4%		£8.42	
3.5-8.4%	£19.08	£8.78	£22.50
8.5-22%		£25.88	
22%+		£28.74	

⁵ HM Treasury (2021) [The new alcohol duty system: Consultation](#) p.27

⁶ HM Treasury (2021) [The new alcohol duty system: Consultation](#) p.31

With the new system, alcohol duties per unit will look like Figure 2.

Figure 2: New duty rates in pence per unit⁷



Another announcement in the Budget was that there will be a 5% reduction on draught beer and cider duty rates for containers over 40 litres. In addition, the Small Producer Relief has been extended across all products and gives a reduced duty rate on products under 8.5% ABV, if production is under a certain threshold.

What effect will the reform have?

Taxing alcohol based on strength not only makes the system simpler and more consistent, but also ensures that higher strength products incur proportionately more duty. This can help address the problem of more harmful high-strength products, such as white ciders, being sold too cheaply.

For example, under the current duty system, strong cider is taxed very little per unit of alcohol as it is taxed by volume of liquid and at a particularly low tax rate. This leads to 2.5l bottles of strong cider, containing 19 units of alcohol, being sold for just £3.59 in England. At this price, it is possible to consume the Chief Medical Officers' low-risk drinking guidelines of 14 units per week for just £2.68 – the price of a high-street cup of coffee.⁸

There is clear evidence that strong, cheap drinks are consumed by the most at risk drinkers, with 40% of alcohol sold below 50p-per-unit consumed by the 4% of the population who drink at higher-risk levels.⁹

The proposed new system ends the perverse incentive to produce stronger cider to take advantage of a lower duty rate per unit. Instead, all ciders between 3.5% and 8.4% ABV will be charged 8.78p per unit in tax. The difference between the current and proposed new system when considering a 2.5l bottle of 4% and 8% cider looks like Table 2:

⁷ HM Treasury (2021) [The new alcohol duty system: Consultation](#) p.30

⁸ Alcohol Health Alliance UK (2020) [Small change: alcohol at pocket money prices](#)

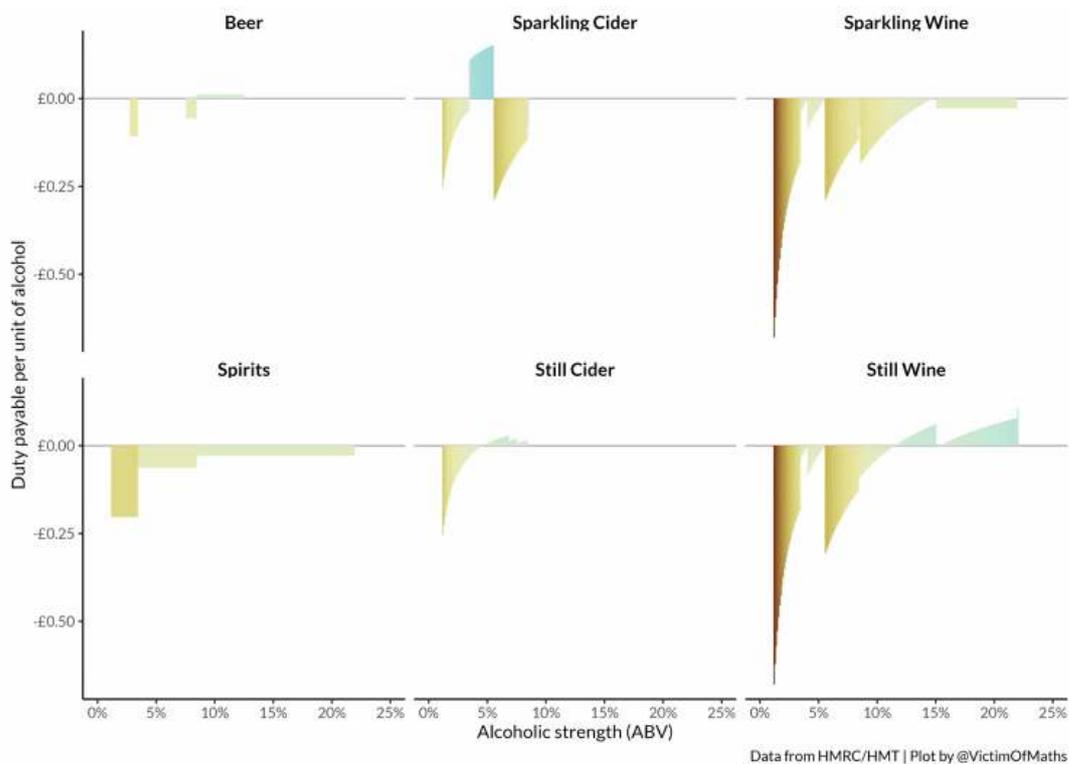
⁹ Sheffield University [Appraising the effect of implementing local Minimum Unit Pricing on alcohol consumption and health in the North West of England](#)

Table 2: Comparison between current duty and proposed duty on cider

Which system?	Duty on 4% cider per unit	Duty on 8% cider per unit	Duty on 4% 2.5l bottle	Duty on 8% 2.5l bottle
Current duty system	10p	7.6p	100p	152p
Proposed new duty system	8.8p	8.8p	88p	176p

While the proposed new rates mean that the duty charged on strong ciders will go up, duty for others will go down. The changes for different drink types can be seen in Figure 3 below.

Figure 3: Change in duty payable per unit of alcohol under the proposed new duty system



One of the stated reasons for changing the system was to “encourage manufacturers to develop new products at lower ABVs, giving consumers greater choice”.¹⁰ The Government hopes that by taxing weaker drinks less than stronger drinks, alcohol producers will be encouraged to reformulate products to bring them into the lower tax band, while people will be encouraged to buy lower-strength drinks as they are cheaper and more available.

Overall, the Treasury estimates the changes to the alcohol duty system will cost the Government £115 million in revenue in the first year.¹¹ In other words, the Government will collect less revenue from alcohol duty.

¹⁰ HM Treasury [Autumn Budget and Spending Review 2021](#) p.83

¹¹ HM Treasury [Autumn Budget and Spending Review 2021](#) p.134

Public health concerns

Public health organisations have long been calling for a system where alcohol is taxed according to its strength. In principle, the new system is therefore a positive development for public health. However, in practice, there are several areas where the Government should be going further if they are serious about establishing a new alcohol duty system that helps to protect public health and reduce alcohol harm.

Firstly, the new alcohol duty rates are set at a level that is too low to be able to make a significant difference to public health. In the call for evidence, we argued that the rates should be proportionate to the harm alcohol causes to society. Currently, the overall revenue from alcohol duty is about £12 billion – which is less than half of the costs of alcohol to society (estimated to be at least £27 billion).¹²

Secondly, cider is still being treated preferentially, with a rate of less than half that of beer for the 3.5-8.4% ABV band, in which most common ciders fall. The Government recognises that applying the same rate to beer and cider would “eliminate disparities between the categories [and] would make the duty system even simpler and more coherent”. However, they continue to say that “the Government is mindful of the significant impact this would likely have on the cider industry”.¹³ The change to the strength-based system will mean that there is no longer a perverse incentive to produce super strong white cider, yet, overall, cider as a category remains widely undertaxed.

Finally, alcohol duty rates continue to be set annually at the Budget. During the call for evidence, we recommended that alcohol duty should be automatically updated in line with inflation or earnings every year, with a comprehensive review taking place every 5-10 years. Indexing duties in line with inflation ensures that duty does not lose value over time (which would lead to greater health harms) and helps to protect revenue. While the Government said that the assumption will be that alcohol duties rise in line with inflation, the rates will continue to be reviewed on an annual basis and therefore subject to political pressures to introduce cuts and freezes.

The continued freeze of alcohol duty

The more immediate consequential decision to public health and the public purse, however, was the announcement that alcohol duties will be frozen once again. This is the ninth year out of ten 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. In 2022/23, in real terms, compared with 2012/13:

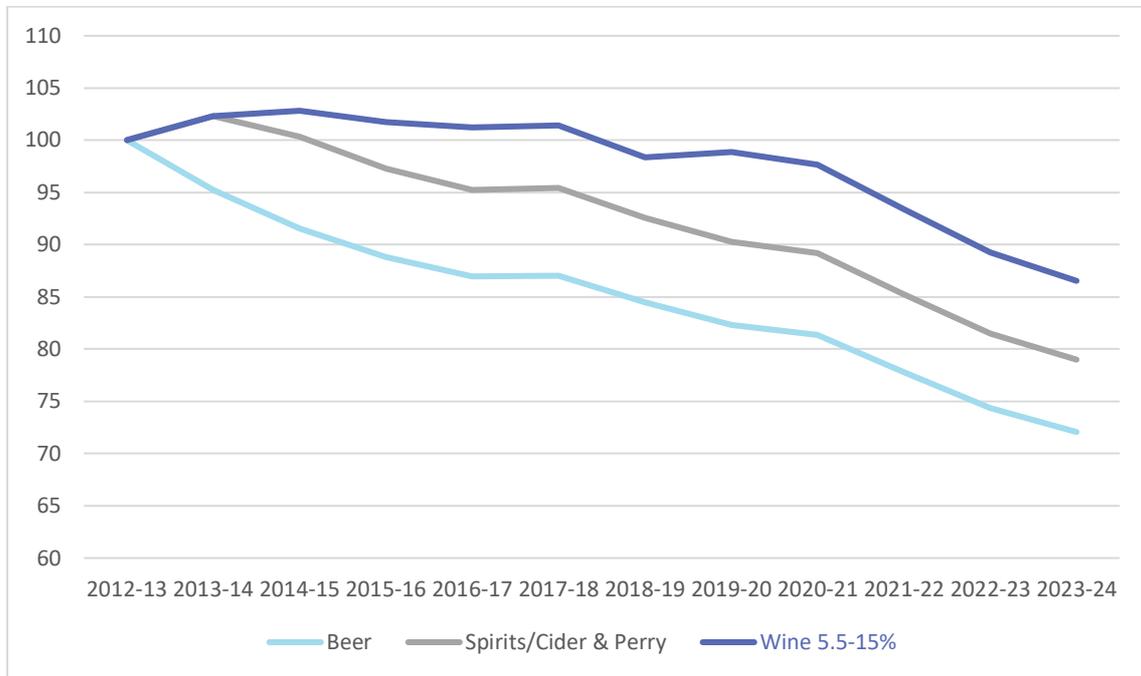
- Beer duty will be 28% lower
- Cider and spirits duty will be 21% lower
- Wine duty will be 13% lower

¹² HM Treasury (2021) [The new alcohol duty system: Consultation](#) p.4; Burton, R. et al. (2016). [A rapid evidence review of the effectiveness and cost-effectiveness of alcohol control policies: an English perspective](#).

¹³ HM Treasury (2021) [The new alcohol duty system: Consultation](#) p.29

In its announcement at the Budget, the Government stated that the continued duty freeze means that Scotch whisky is facing the lowest real-term tax rate since 1918.¹⁴ Figure 4 below shows the development of duty rates in real terms since 2012/13:

Figure 4: Real duty rates, indexed: 2012/13=100¹⁵



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. 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 million¹⁶

These harms are experienced disproportionately by the poorest in society. Deaths from alcohol are already at record high levels in the UK, having increased by 19% in 2020.¹⁷ Making alcohol even cheaper by freezing alcohol duty rates will only increase these numbers, deepen inequalities and add extra pressure on the NHS and public services.

¹⁴ HM Treasury [Autumn Budget and Spending Review 2021](#) p.86

¹⁵ HMRC [Alcohol Bulletin commentary \(August to October 2021\)](#)

¹⁶ 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

¹⁷ ONS (2021) [Alcohol-specific deaths in the UK: registered in 2020](#)

A substantial cost to the public purse

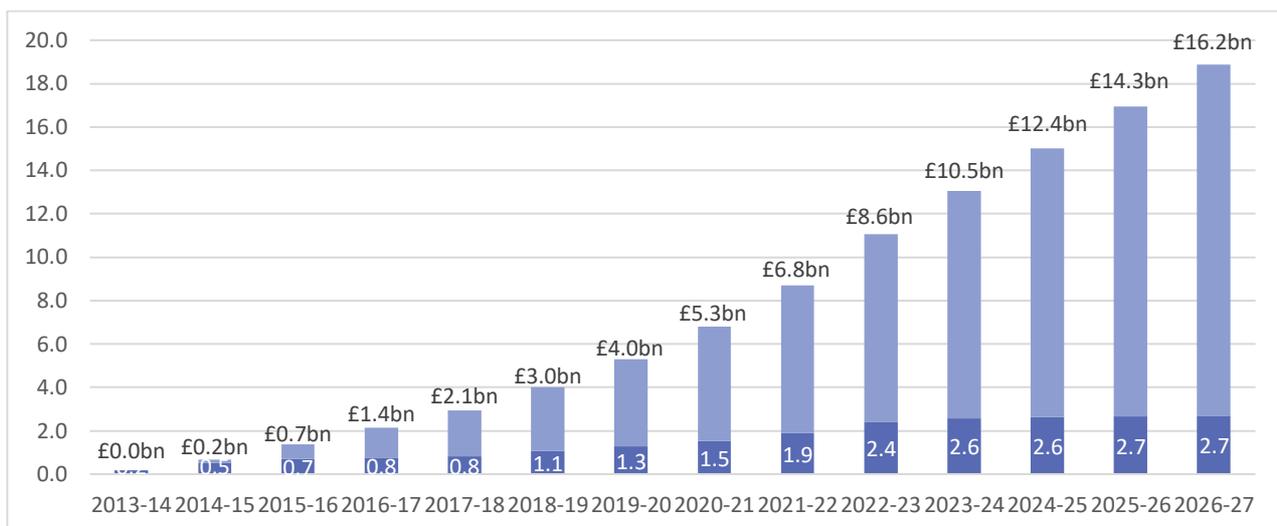
In addition, freezing alcohol duty will also cost the Treasury much needed revenue. The Treasury estimates that the freezes to beer, wine, cider and spirits duty in this year's Budget will cost the Government on average £500 million a year over the next six years (Table 3).

Table 3: Impact of October 2021 alcohol duty freeze on government finances¹⁸

2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
£80m	£545m	£560m	£585m	£600m	£620m

Added to the cuts and freezes in alcohol duty since 2012, the annual cost of recent cuts to alcohol duty will be more than £1.9 billion in 2021/22. By 2026/27, the total cumulative foregone revenue will reach **£16.2 billion**. In other words, if the Government had stuck to the planned trajectory for alcohol duty in 2012 – 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 £16.2 billion for the public finances.

Figure 5: Cumulative and annual impact of alcohol duty cuts since 2012 on government finances¹⁹



Lowering duty does not help pubs

One of the frequently touted arguments is that freezing or cutting alcohol duty supports the hospitality industry: on-trade sales in pubs, restaurants and bars. However, cuts in alcohol duty applies to all alcohol regardless of where it is sold. In practice, duty cuts are therefore mainly helping supermarkets to maintain the low prices that help to undercut the on-trade.

Since 1987, on-trade beer prices have increased by almost 400%, whereas in comparison, supermarket beer prices have increased by 70%.²⁰ This increasing disparity, along with other factors, has fuelled the increase in home drinking.

Alcohol duty, however, is the same in both the on- and off-trade: around 44p per pint of beer in the supermarket and in pubs. This means that duty on alcohol in supermarkets

¹⁸ HM Treasury [Autumn Budget and Spending Review 2021](#) p.134

¹⁹ HM Treasury [Autumn Budget 2021](#) and [IAS March 2021 Budget Analysis](#)

²⁰ Angus, Colin, [Why the Chancellor's freeze on alcohol duties is bad news for pubs](#) 2021

makes up a much bigger proportion of the total cost of products sold there. Cutting duty therefore makes a bigger difference to the price of alcohol sold in the off-trade.

Health economist Colin Angus points out that “cutting duty increases the relative gap in prices between the on- and the off-trades and will have a much larger impact on alcohol sales in the supermarket than in the pub”. It therefore “isn’t such a great idea if your aim is to help the hospitality industry”.²¹

This is mirrored in the data: between 2008 and 2013 – when beer duty was increased by 2% above inflation every year – the net decline in the number of pubs was 1.5% a year. Between 2013 and 2017 – when beer duty was frozen – it continued at around the same rate (1.6% a year).²² Duty cuts thus do not seem to have slowed the closure of pubs.

Not only that, but pub landlords have also previously expressed that duty is not a big concern to them, with only 16% saying they think it was one of the main causes of pub closures in recent years. 45% said they think duty should be kept at the same rate in pubs and not reduced, and 72% said that duty on alcohol in supermarkets should be increased.²³

²¹ Angus, Colin, [Why the Chancellor’s freeze on alcohol duties is bad news for pubs](#) 2021

²² BBPA (2018), Statistical Handbook 2018

²³ IAS (2017) [Pubs Quizzed: What publicans think about policy, public health & the changing trade](#) p.9