



Dispelling Six Industry Myths About Alcohol Taxation

January 2024

IAS

Institute of
Alcohol Studies

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Acknowledgements

Thanks to Colin Angus of the University of Sheffield, and Dr Katherine Severi and Dr Sadie Boniface of IAS for reviewing draft versions of this report.

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Executive Summary

“Cheap alcohol has unquestionably played a part in the record number of alcohol-related deaths and hospital admissions we are now experiencing”
Professor Sir Ian Gilmore, BMA/AHA, 2023

MYTH #1 “Cutting and freezing duty brings in more revenue to the Treasury.”

FACT

Cumulatively, duty cuts will cost the Treasury £24 billion from 2013-2028, compared with if duty had been raised in line with inflation as was planned.

Alcohol duty receipts have risen linearly over the last 20 years, with no outlier when the duty escalator was in place, from 2008-2014.

Reduced alcohol consumption would be offset by spending on other products and services, which, together with the public health gains, would be unambiguously good for the UK economy.

MYTH #2 “Uprating will damage alcohol production and sales.”

FACT

Alcohol production and sales remained remarkably stable – or grew – both when the duty escalator was in place and during subsequent cuts, even when adjusting for inflation.

MYTH #3 “Freezing duty supports pubs and hospitality. Uprating will lead to pubs closing.”

FACT

Freezing and cutting duty makes supermarket alcohol relatively more affordable so encourages people to drink at home more. And pubs have continued to close despite duty cuts and freezes.

Pub landlords see supermarkets as the biggest threat to their pubs, not duty.

Contrary to popular belief, the pub sector as a whole hasn't been in chronic decline. As with many industries, the pub sector has evolved over time, with more successful pubs pushing out competitors and a trend towards fewer pubs, employing more people.

MYTH #4 “Uprating duty would lead to job losses in the hospitality sector.”

FACT Uprating by the duty escalator mechanism didn’t change employment numbers and uprating duty would help slow the move to home drinking.

MYTH #5 “Uprating unfairly penalises moderate drinkers and disproportionately hurts disadvantaged people.”

FACT Alcohol duty increases barely affect the finances of people drinking within the guidelines and evidence shows they reduce health inequality.

For someone drinking a bottle and a half of wine each week (within the low risk guidelines), a 5% uprating of duty would only cost them £10 more each year.

Economically disadvantaged groups drink less yet suffer more alcohol harm. These groups are also more price sensitive so would pay less of any uprating. There is strong evidence that alcohol price increases reduce health inequalities.

MYTH #6 “It’s unfair on spirits compared to beer and cider.”

FACT Alcohol duty should be based on the strength of products, with stronger products paying more. This will help incentivise the production of low strength, less harmful drinks.

In addition, it’s generally much cheaper to produce spirits than beer, cider, or wine, so spirits should be taxed more.

Cider should not be preferentially treated though and should have the same rates as beer.

Introduction

Since the COVID-19 pandemic, the UK has experienced year-on-year increases in deaths from alcohol. Between 2019 and 2021 there was a 27.4% increase in alcohol-specific deaths, reaching the highest number on record.¹ Policies to reduce the affordability of alcohol – such as increasing alcohol duty in real terms – are among the most effective and cost-effective ways to reduce harm.² It is therefore a particularly bad time to allow alcohol duty to decrease in real terms.

Despite this, in the run up to every Budget and Autumn Statement, the alcohol industry vociferously lobbies for alcohol duty to be cut or frozen (a real terms cut). The industry argues that doing so brings in more Treasury revenue, and that uprating will damage production, lead to job losses, pubs being forced to close, and is unfair on consumers and economically disadvantaged people. Yet none of these arguments stand up to scrutiny.

It is important to remember that ‘uprating’ or ‘increasing’ refers to raising nominal duty rates by inflation, in order that duty revenue stays the same in real terms and doesn’t fall. ‘Freezing’ is thus a cut in real terms. And uprating is simply maintaining the status quo.

Although the default assumption of the Treasury and Office for Budget Responsibility is that alcohol duty will be uprated with inflation from 01 February each year – so that alcohol does not become cheaper in real terms – the impact of industry lobbying has meant that duty has been cut or frozen most years over the past decade.

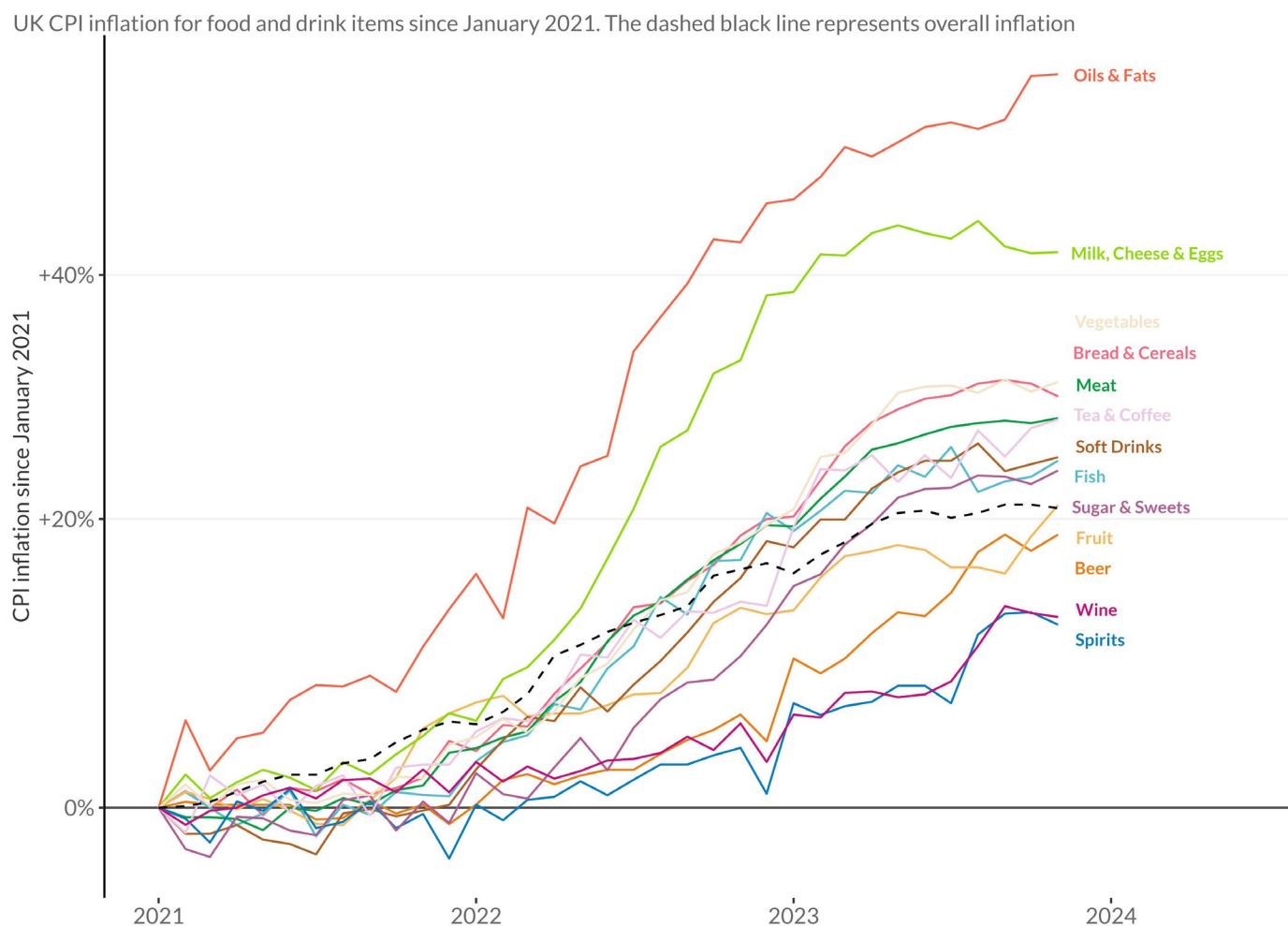
Due to different government approaches to alcohol duty over the past 15 years, it is possible to compare periods of consistent uprating of duty with periods of (almost) consistent cuts and freezes. Labour’s Chancellor Alistair Darling introduced the ‘alcohol duty escalator’ in 2008, which automatically uprated duty every year by 2% above inflation. This ran until 2014 (although beer duty was cut in 2013 and 2014 and spirits duty in 2014), when it was abolished by Conservative Chancellor George Osborne. From 2015

until 2022, alcohol duty was cut or frozen every year, apart from in 2017. It is therefore possible to draw parallels between these two very different periods and approaches to alcohol duty.

Comparing the two, it is clear that uprating alcohol duty does not have the cataclysmic effect alcohol industry lobbyists argue it will. During both periods, alcohol production and sales remained very stable or grew, with major drinks companies recording massive profits (see Myths 1 and 2). Pubs have closed at a similar rate during both periods (Myth 3). Employment numbers in pubs and bars remained remarkably stable (Myth 4). And uprating is clearly not regressive when taking health effects into account, a crucial consideration for a public health lever (Myth 5).

The overwhelming public health argument for reducing the affordability of alcohol should always be considered too. Freezing duty leads to alcohol becoming more affordable, which increases the number of deaths and hospitalisations. Decisions to cut and freeze duty between 2012 and 2019 led to an estimated 2,223 additional deaths in England and Scotland and 65,942 additional hospital admissions.³ This tax break to an already hugely wealthy alcohol industry is not only unnecessary – since the industry has done very well during periods of uprating – but also fuels a public health crisis during a time of record high deaths from alcohol. Analysing data from the Office for National Statistics (ONS), in **Figure 1** health economist Colin Angus has shown that, as of December 2023, beer, wines, and spirits were **the only** major food and drink categories to have become cheaper in real terms since the start of 2021.⁴ As alcohol is a discretionary, non-essential product, that causes over 25,000 deaths in the UK each year, it is disheartening that – partly due to government policy – there has been such a stark contrast between how much more expensive essential goods have become compared to alcohol in the cost-of-living crisis. Particularly at a time when Treasury revenue could be used to finance public services and reduce economic inequality.

Figure 1: Prices of alcohol have risen much slower than other food and drink items



The media and politicians consistently overestimate the public appeal of freezing duty. Most people would prefer alcohol duty to be uprated rather than other taxes. A YouGov poll by The Times in 2023 found that the government's decision to freeze alcohol duty was the least popular measure in the Autumn Statement.⁵ Only 38% of people supported the decision to freeze duties, with 47% of the public saying it was the wrong priority for the country at the time.

A 2023 study by IAS found that there has been a wide variety of messaging used by governments in communicating decisions on alcohol duty between

2008-23, with sometimes conflicting objectives and no clear long-term strategy.⁶ Many of the industry myths outlined in this report have been articulated within government duty announcements over the years. By reflecting on the veracity of these statements, the government can be more consistent with their messaging, while supporting both the economy and public health.

In this report, we look at six of the most prevalent arguments made by the alcohol industry when it seeks to have duty cut or frozen, and we demonstrate why these are fallacious.

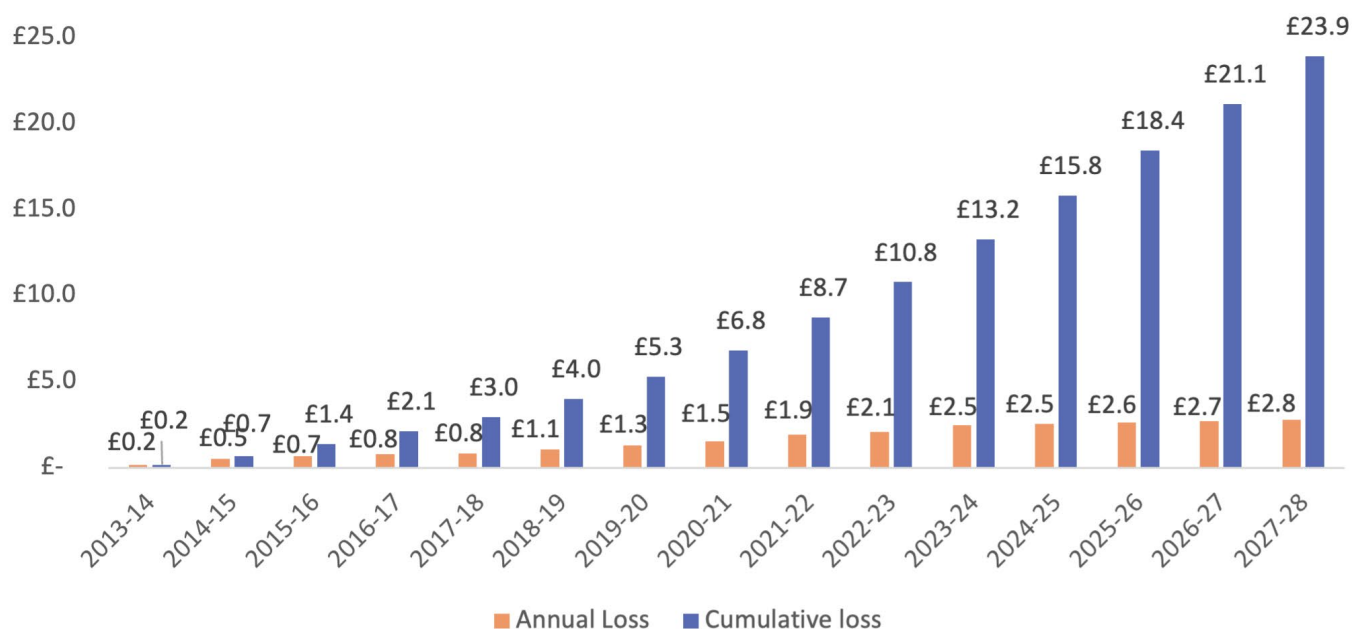
MYTH #1 “Cutting and freezing duty brings in more revenue to the Treasury.”

FACT Cumulatively, duty cuts will cost the Treasury £24 billion from 2013-2028, compared with if duty had been raised in line with inflation as was planned.

The Treasury and Office for Budget Responsibility assume that all alcohol duty rates will go up with inflation year-on-year from 01 February, so that alcohol duty does not lose value in real terms. However, added to the cuts and freezes in alcohol duty since 2012, the annual cost of recent cuts to alcohol duty was more than £2.1 billion in the year 2022-23. By 2027-28, the total cumulative foregone revenue will reach £23.9

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 £23.9 billion for the public finances. This amount is equivalent to seven years of the public health grant.

Figure 2: Cumulative and annual impact of alcohol duty cuts since 2012 on government finances - £billions



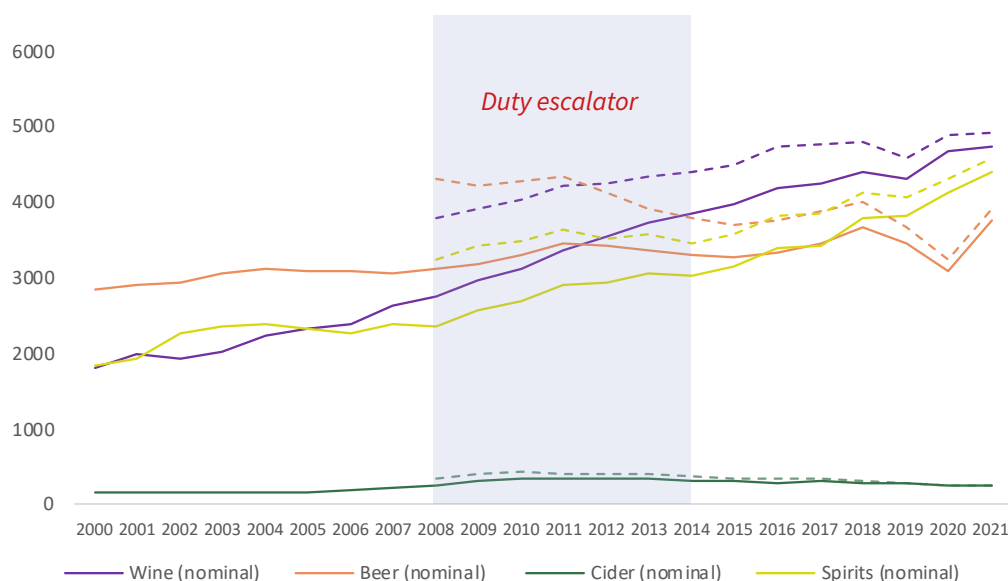
Source: HM Treasury [Spring Budget 2023](#), HM Treasury [Autumn Statement 2022](#), HM Treasury [Growth Plan 2022](#), and HMRC [Alcohol Bulletin](#) and [IAS October 2021 Budget Analysis](#)

Yet the alcohol industry argues that duty increases are “counterproductive” as they reduce sales, resulting in less revenue for the Treasury. This argument is partly based on the discredited Laffer Curve theory⁷, which argues that raising tax rates beyond a certain point is counterproductive for raising tax revenues. For instance, in 2017, the Scotch Whisky Association (SWA) said that one million fewer bottles were sold in the first six months of 2017 compared to the same period in 2016, due to duty being uprated in 2017’s Spring Budget.⁸ However, this doesn’t stand up to

scrutiny of duty receipts collected by HMRC over the past 20 years. In both nominal and real terms, wine and spirits continued to contribute more revenue to the Treasury each year when the duty escalator was in place – when duty was uprated – and subsequent years – when duty was cut or frozen (beer duty did fall during the escalator years and plateaued in later years).⁹

Notable points are that during the years the escalator was in place, wine receipts grew by 16% in real terms

Figure 3: Total duty receipts 2000-2022 - £millions - nominal and indexed to 2022 prices (HM Revenue and Customs Alcohol Bulletin data tables)



and 9% over the following seven years. Spirits receipts also grew during these years, by 7% (growth was higher over the following years, at 28%).

Despite the Wine & Spirit Trade Association and the SWA arguing that uprating duty leads to the Treasury losing revenue¹⁰, when the escalator was in place, revenue from their products steadily increased.

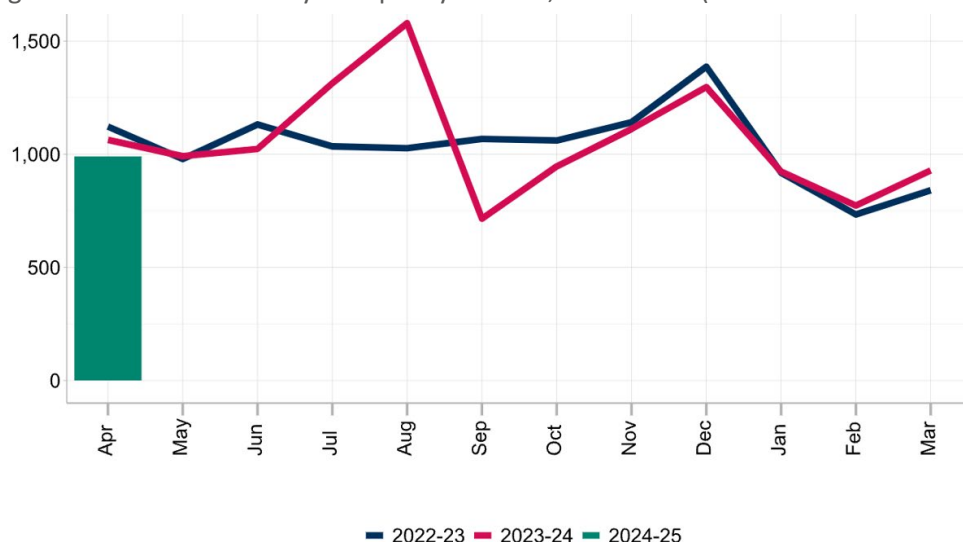
Forestalling

One of the tactics these trade associations use to claim that increasing nominal duty rates leads to reduced Treasury revenue is to selectively compare months when duty paid to the Treasury was particularly low or high. For instance, in July 2024, the SWA wrote to the new Prime Minister Keir Starmer, stating that: “For the first budget of this Parliament, the Chancellor

should take the first step to reduce the tax burden on Scotch Whisky and unwind the damaging impact of the 10.1% increase to spirits duty in August 2023. In the ten months since it was imposed, this tax hike reduced revenue available to HM Treasury by £108m.” This claim was repeated many times in the media from late 2023.

As HMRC has stated in many of its Alcohol Bulletins, alcohol producers engage in ‘forestalling’ in anticipation of nominal increases in duty rates. Forestalling means releasing product for sale before duty rates increase. This happened in 2023 due to the increase being announced many months before it took effect. HMRC’s chart below shows the impact of forestalling behaviour on receipts in September 2023.

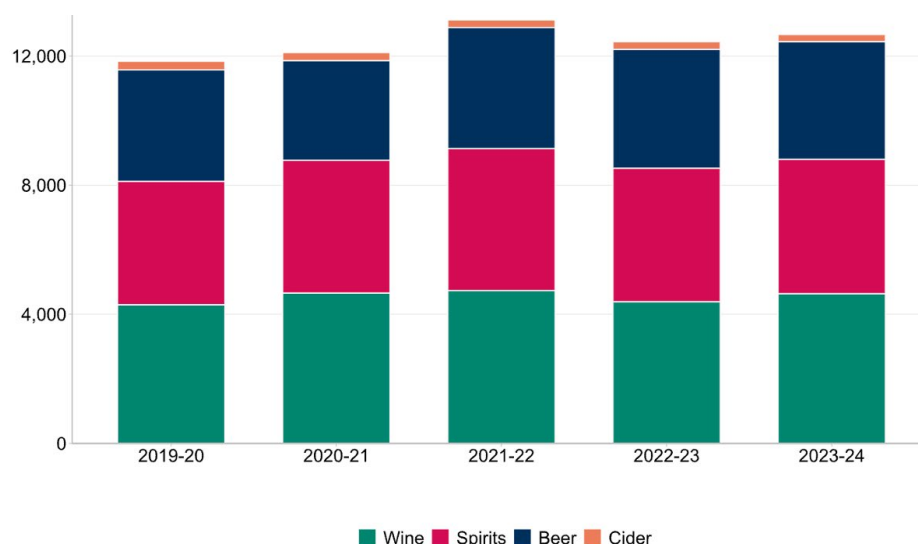
Figure 4: Total Alcohol Duty receipts by months, in £ million (HMRC Alcohol Bulletin)



In their arguments that an increase in duty has led to decreased Treasury revenue, both the SWA and WSTA cynically and selectively compare periods after producers forestalled – when receipts were understandably lower than normal – with a period when duty was frozen and producers had no motive

to release product early to reduce their tax payments. However, crucially, when taking the whole financial year into account, it is very clear that nominal duty receipts were not affected by the increase in duty in August 2023, as HMRC's chart below shows:

Figure 5: Alcohol Duty receipts by product type, financial years, in £ million (HMRC Alcohol Bulletin)



Public health gains

Ultimately though, the public health aim of uprating alcohol duty is to reduce consumption and subsequent harm. If this aim were successful, it is possible that in the longer run Treasury revenue may fall as a result. However, this is a simplification of the economic argument, as any reduction in revenue will be partly offset by spending in other sectors. When demand decreases for alcohol, consumers switch to other products and services, increasing demand and employment in those sectors.¹¹ Further, when governments then spend the revenues generated by taxes, they create employment.

The Fraser of Allander Institute has analysed the economic impact of a 10% increase in alcohol duty and found that there would be a slight decrease in Gross Value Added (GVA), but that: "If the government spends additional revenues from higher tax, following the pattern of their base-year spending, then the net economic impact of higher alcohol tax becomes positive with an increase in GVA of £847 million and a gain of 17,040 FTEs [full-time equivalent jobs]."¹²

Crucially though, this ignores the economic gains

from a reduction in harm, which would be substantial. The Organisation for Economic Co-operation and Development (OECD) states that: "Tackling harmful alcohol consumption is an excellent investment... for every USD 1 invested in a comprehensive policy package, up to USD 16 are returned in economic benefits."¹³

As stated in a 2017 report by IAS: "There is little reason to suspect that lower levels of drinking would have a negative effect on the economy, and in fact, some reason to think it would be beneficial. Lower presenteeism, absenteeism, unemployment and mortality are clear benefits. In the long run, less drinking may boost productivity by encouraging saving and diverting labour to more productive sectors. At a time when productivity is the major challenge facing the UK economy, such shifts could bring economic benefits. The 'short run' effect – in the sense used by economists to refer to the period when there is a shortage of demand in the economy – of lower alcohol spending is more ambiguous. Yet the Office for Budget Responsibility's economic indicators suggest this is less relevant to the present state of the UK economy than long run considerations."¹⁴

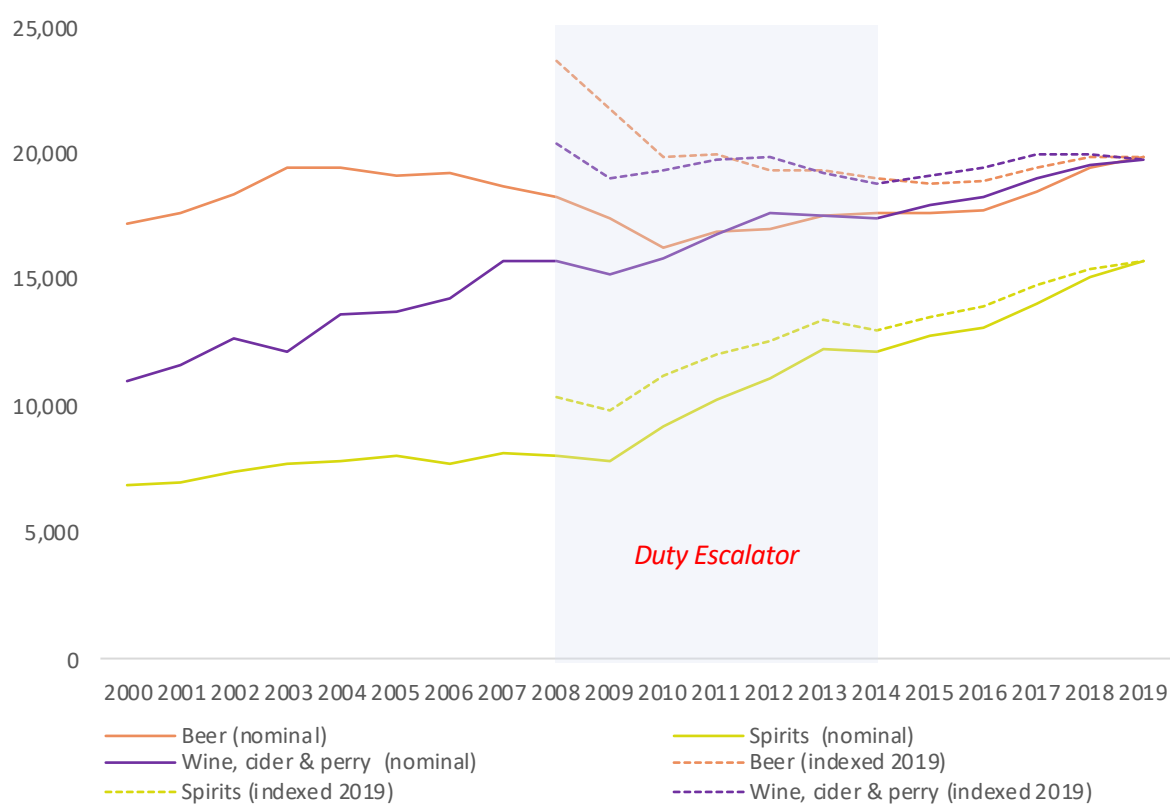
MYTH #2 “Uprating will damage alcohol production and sales.”

FACT Alcohol production and sales remained remarkably stable – or grew – both when the duty escalator was in place and during subsequent cuts, even when adjusting for inflation.

As we can see from UK household expenditure on alcohol (**Figure 6**), apart from beer consumption (which was falling before the escalator was introduced), uprating duty did not damage the sale

of alcohol. Perhaps surprisingly though, cutting and freezing duty between 2015 and 2019 did not lead to additional growth in expenditure compared to the period of uprating.

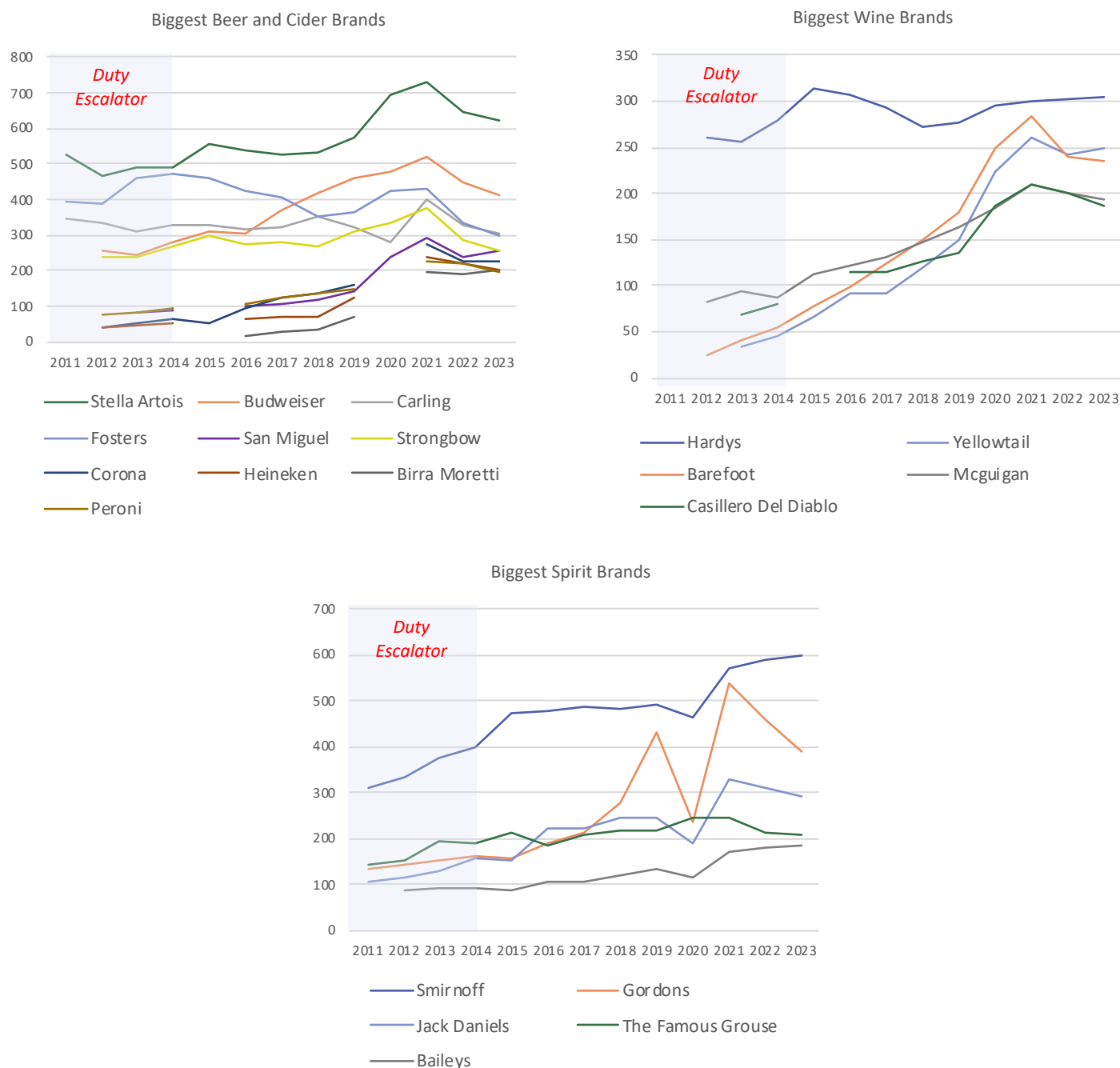
Figure 6: UK household consumption expenditure on alcoholic drink - £millions
(BBPA Statistical Handbook)



This may be due to companies offsetting potential higher costs imposed by uprated duty by focusing more on the production and sale of low and no alcohol products. If alcohol duty is uprated in future, we are likely to see an increase in the supply of lower strength, less harmful drinks.

Sales of the top 20 off-trade brands have also seen very steady growth over the last 15 years, with periods of uprating doing little to slow this growth, as **Figure 7** shows (some sales data missing in 2015 and 2020).

Figure 7: Biggest Alcohol Brands - Off-trade sales, £millions
Top 20 in 2023 (The Grocer)



In a perfectly competitive market, profits should be close to zero. Yet the alcohol market in the UK and across the world is anything but perfect or competitive, with a few large global firms dominating the production, marketing, and sale of alcohol, and bringing in massive profits. For instance, in 2022-2023 AB InBev made \$6 billion in profit¹⁵, Diageo £4.6 billion¹⁶, and Heineken €4.5 billion¹⁷. The oligopoly structure of the market means that big companies

can generate higher profits per pound invested compared to smaller companies, which they use to fund marketing that acts as a barrier to entry to these smaller firms.¹⁸

The alcohol industry has profited hugely during periods of both uprating and cutting/freezing, demonstrating that it does not require tax cuts to grow and profit.

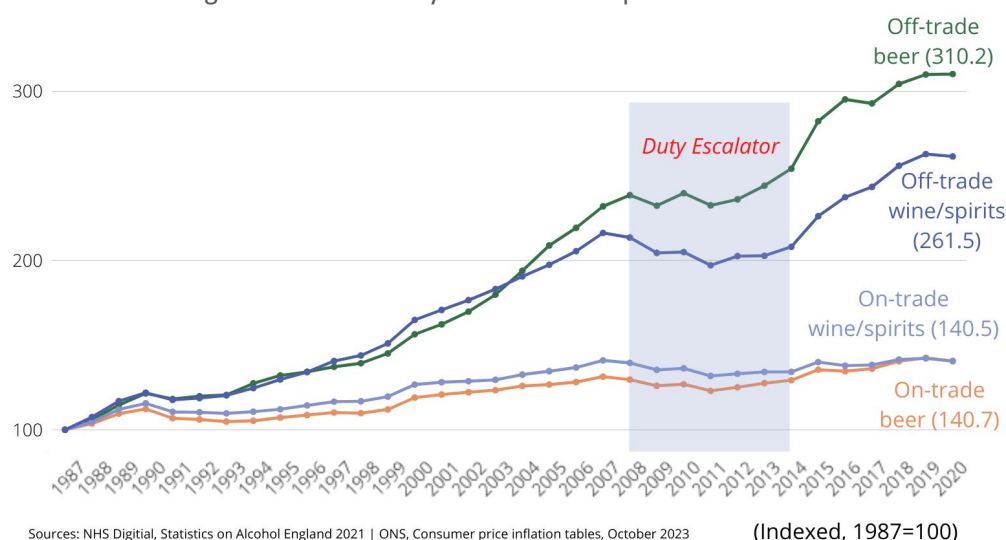
MYTH #3 “Freezing duty supports pubs and hospitality. Uprating will lead to pubs closing.”

FACT Cutting and freezing duty pushes people to drink at home more. Pubs have continued to close despite duty cuts and freezes.

Duty makes up a much bigger proportion of the price of off-trade alcohol, so freezing duty – a real terms cut – disproportionately helps supermarkets maintain lower prices than the on-trade. Uprating duty, as the

duty escalator did, helps close the widening gap in affordability between on- and off-trade alcohol, as **Figure 8** demonstrates.

Figure 8: Affordability of alcohol compared to 1987



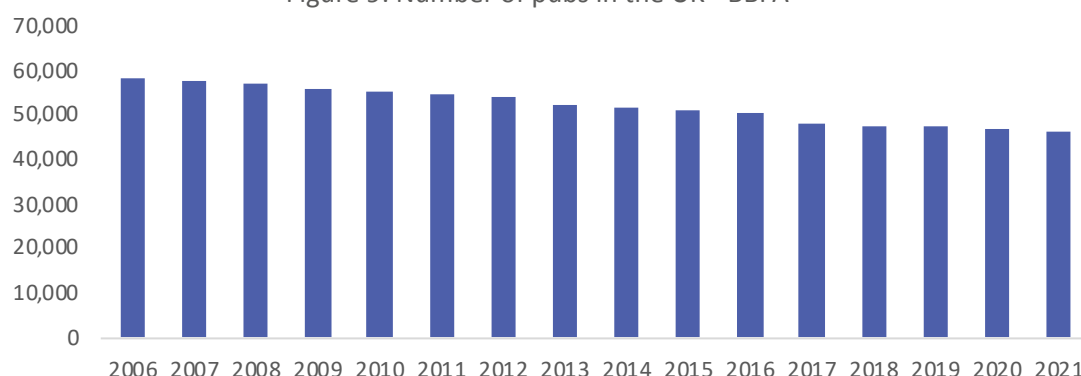
Publicans have made it clear that the biggest threat to their existence is cheap supermarket alcohol, not duty. In the 2017 report ‘Pubs Quizzed’, 47% of publicans ranked ‘Competition from supermarkets’ as one of the top three reasons for pub closures.¹⁹ Only 16% said alcohol duty was. And 72% favoured raising alcohol duty in supermarkets.

In 2016, a group of leading publicans wrote to the Chancellor to criticise the British Beer & Pub Association’s (BBPA) “morally flawed” campaign for a

duty cut, claiming: “The BBPA are lobbying hard on behalf of brewer members but the decrease they seek is not effectively passed down to those that make the investment and employ the people. Worse still, they are not saving a single pub with their actions.”²⁰

During the years of the duty escalator, the number of pubs in the UK steadily fell by an average of 880 a year. When duty was cut or frozen in later years, this number was 793 a year. So cutting and freezing duty is not preventing pubs from closing.

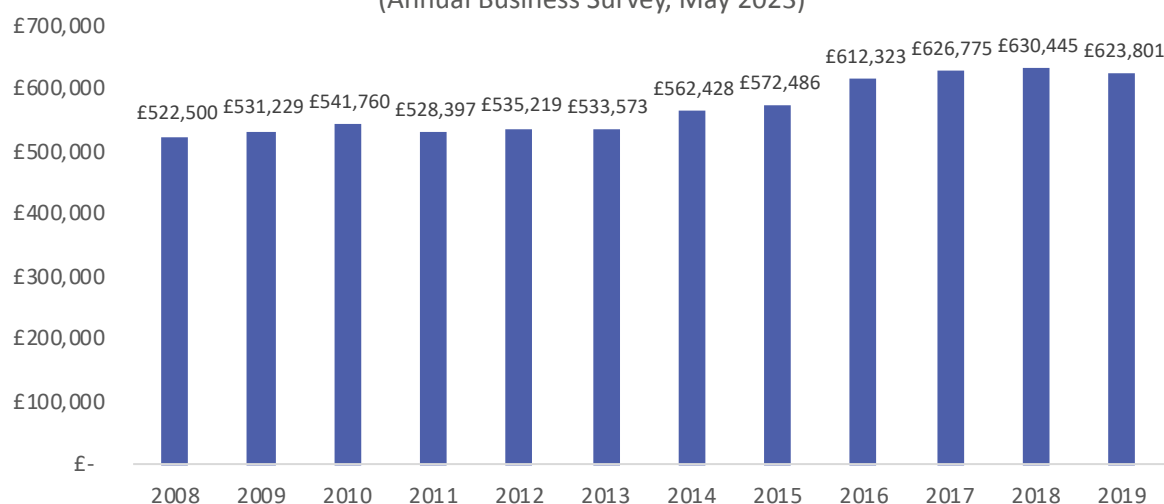
Figure 9: Number of pubs in the UK - BBPA



Then why are pubs closing? The Campaign for Pubs states that the main reason is nothing to do with financial viability, but due to freeholders selling their property to “cash in for development or for alternative use”, such as being converted into a supermarket.²¹ In more recent years, soaring energy bills and falling spending power due to the cost-of-living crisis have

been cited as core reasons for pubs closing. Despite this, the average pub or bar revenue has actually increased in recent years, bringing in 19% more in 2019 than in 2008, even when accounting for inflation. As the Annual Business Survey shows, the average turnover per establishment in 2008 was £523,000 a year, compared to £624,000 in 2019.

Figure 10: Average turnover per establishment - 2019 prices
(Annual Business Survey, May 2023)

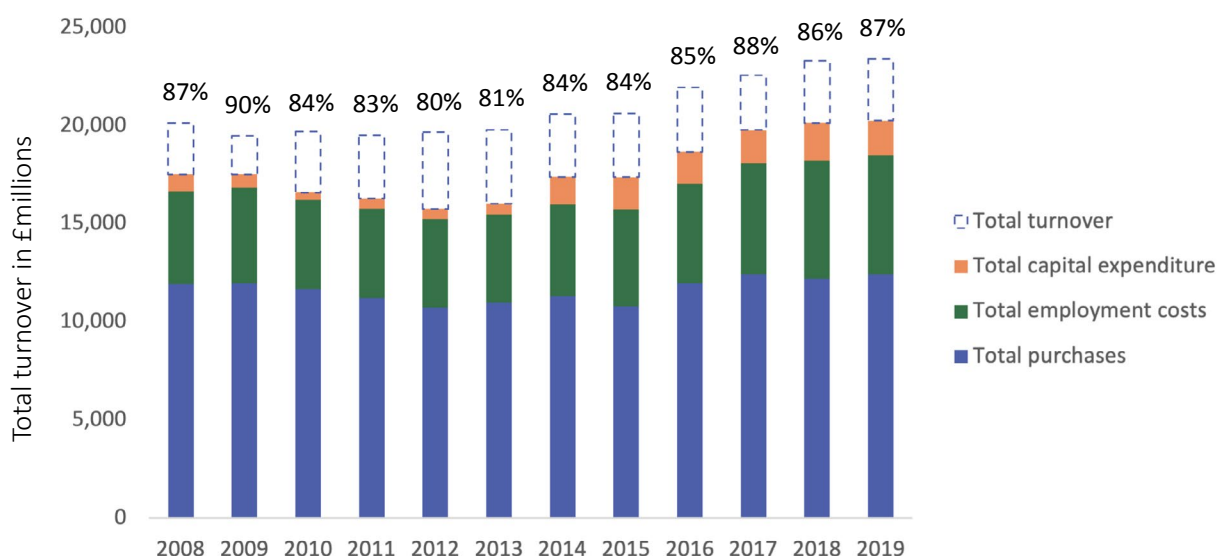


Another possibility is that pubs are less able to hold onto revenue generated – if costs have risen substantially. However, up to 2019, there was little evidence that the costs of running a pub had significantly increased. **Figure 11** shows total purchases (including wholesale food and drinks), total employment costs, and total capital expenditure (investment in the business) as a share of total turnover for pubs and bars. Interestingly, the lowest

costs as a proportion of turnover were in 2012 and 2013, when the duty escalator was in place.

This suggests that, contrary to popular belief, the pub sector as a whole hasn't been in chronic decline. As with many industries, the pub sector has evolved over time, with more successful pubs pushing out competitors and a trend towards fewer pubs, employing more people.

Figure 11: Costs as a share of Turnover in UK Beverage Serving Activities
(Annual Business Survey, May 2023)



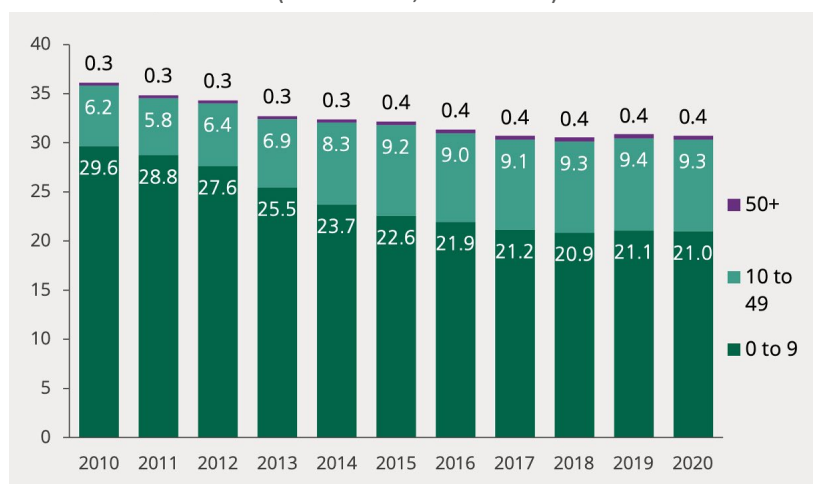
MYTH #4 “Uprating duty would lead to job losses in the hospitality sector.”

FACT Uprating by the duty escalator mechanism didn’t change employment numbers and uprating duty would help slow the move to home drinking.

When the duty escalator was in place, from 2008 to 2014, the number of people employed in pubs and bars went from 423,000 to 421,000, so it did not lead to job losses.²²

What has changed is the size of pubs, with smaller premises closing and bigger premises opening, which employ more people – as **Figure 12** shows. This explains why there has been a fall in the number of pubs but no real change in employment.

Figure 12: Number of pubs in the UK by employment size band (2010-2020, thousands)

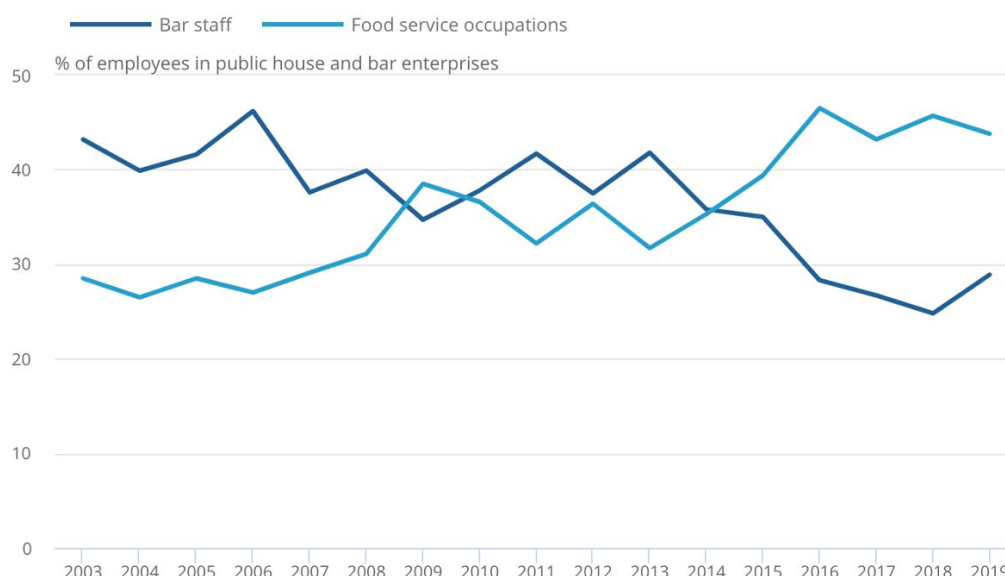


Source: [Foley, Niamh, Pub Statistics, House of Commons Library \(2021\)](#)

Prior to the pandemic, there was a slight rise in employment, which the ONS has stated is due to pubs and bars employing more people serving food than working behind the bar. They attributed this to changing consumer habits: “There is a long-term trend towards people spending more of their household income on eating out and less on drinking out.”²³

It is also important to reiterate the point that uprating duty slows the trend towards people drinking cheaper products at home, as it closes the gap in price between on- and off-trade alcohol (see Myth 3). This means hospitality jobs are actually somewhat protected by duty being uprated. This is particularly the case now, with on- and off-trade duty for some products being differentiated by the Draught Relief policy measure.

Figure 13: Employee jobs in the pubs and bars sector - UK, 2003-2019



Source: Office for National Statistics, [Economies of scale: changes in the UK pubs and bars sector, 2001 to 2019 \(2020\)](#)

MYTH #5 “Uprating unfairly penalises moderate drinkers and disproportionately hurts disadvantaged people.”

FACT Alcohol duty increases barely affect the finances of people drinking within the guidelines and evidence shows they reduce health inequality.

The majority (79%) of the population of England report either drinking within the low risk guidelines or not drinking at all.²⁴ The number is very similar in the devolved nations. For someone drinking an average of 14 units each week (the upper limit of the guidelines), duty being uprated with inflation will barely increase the amount they spend on alcohol. For example, if someone drinks a bottle and a half of 12% wine each week, the duty payable as of early 2024 would be £3.85. If alcohol duty were to be uprated by RPI inflation from August 2024 – at say 5%, and assuming all of the increase was passed onto the consumer – they would be spending 20p more on alcohol each week, or £10 more over the year.²⁵ 14 units is the highest amount within the low risk drinking category, so many of the 79% are drinking less than that, meaning they would be spending less than £10 more each year.

However, the alcohol industry is less concerned about the amount that moderate drinkers consume or pay, because a bigger concern relates to their heaviest using customers, who they rely on for their profits. The 4% heaviest drinkers account for almost a quarter of the alcohol industry’s sales revenue. If all drinkers followed the recommended drinking guidelines, the alcohol industry would lose almost 40% of its revenue, an estimated £13 billion.²⁶

The industry also argues that alcohol duties are inherently regressive as they cost the same for everyone and therefore disproportionately hit lower-income households. On the face of it, this seems logical. However, it is a very narrow simplification that ignores: the reality of drinking patterns; the products different groups consume; health inequalities; and other distributional effects relating to geographical region, age, and sex.

Economically disadvantaged groups drink less but experience higher rates of alcohol-related death and disability; referred to as the ‘alcohol harm paradox’. Pricing policies, such as alcohol duty, reduce consumption among economically disadvantaged groups more, meaning they experience the greatest health benefits, helping to reduce health inequality. Minimum unit pricing has had this precise effect in Scotland, where it was found to save more lives in the most deprived areas.²⁷ Although even if the impact of pricing policies on consumption was similar across socioeconomic groups, these policies would still reduce health inequality due to more deprived groups experiencing greater harm per unit of alcohol consumed.

As people on lower incomes drink less overall, when looking at household expenditure, alcohol accounts for a lower or similar share of spending compared to higher income households. Yet these households tend to be more price sensitive, meaning that they will pay less of any increase in alcohol duty. And if tax revenue is effectively used by government in ways to specifically reduce inequality and help economically disadvantaged people, taking a more holistic view, this would clearly make the policy progressive.²⁸

Cutting and freezing alcohol duty has made alcohol much more affordable in recent years, directly leading to additional deaths.²⁹ This additional harm hits disadvantaged communities more, highlighting how cuts and freezes have clearly been regressive in health terms.³⁰ For more on the distributional effects of UK alcohol taxes, see the IAS report ‘[Who pays the tab?](#)’.

MYTH #6 “It’s unfair on spirits compared to beer and cider.”

FACT

Alcohol duty should be based on the strength of products, with stronger products paying more. This will help incentivise the production of low strength, less harmful drinks.

In addition, it’s generally much cheaper to produce spirits than beer, cider, or wine, so spirits should be taxed more.

As the BBPA has very clearly explained in its publication ‘Alcohol Taxation in the UK’, different alcoholic products should have different rates of tax, as they differ in production cost.³¹ It is much more costly to produce beer and wine than distilled spirits, which is partly why most countries tax spirits at higher rates.

The SWA also argues each year that uprating duty puts the whisky industry at a disadvantage and that there needs to be better recognition of Scotch whisky’s contribution to the economy, hospitality, and tourism. Yet uprating duty would barely affect this, since 95% of whisky produced in Scotland is exported anyway,

meaning the duty is paid in other countries rather than the UK.³² The reason the SWA lobbies so hard for this is that they also represent producers of all other products, such as Diageo. And wine, beer, and vodka are consumed in Scotland much more than whisky and will therefore be more affected by duty being uprated.

There is one clear inconsistency in duty rates, with cider being preferentially treated with much lower rates than beer, to the detriment of public health.³³ Cider duty should have the same rates as beer, particularly due to the harm caused by cheap, high-strength ciders.



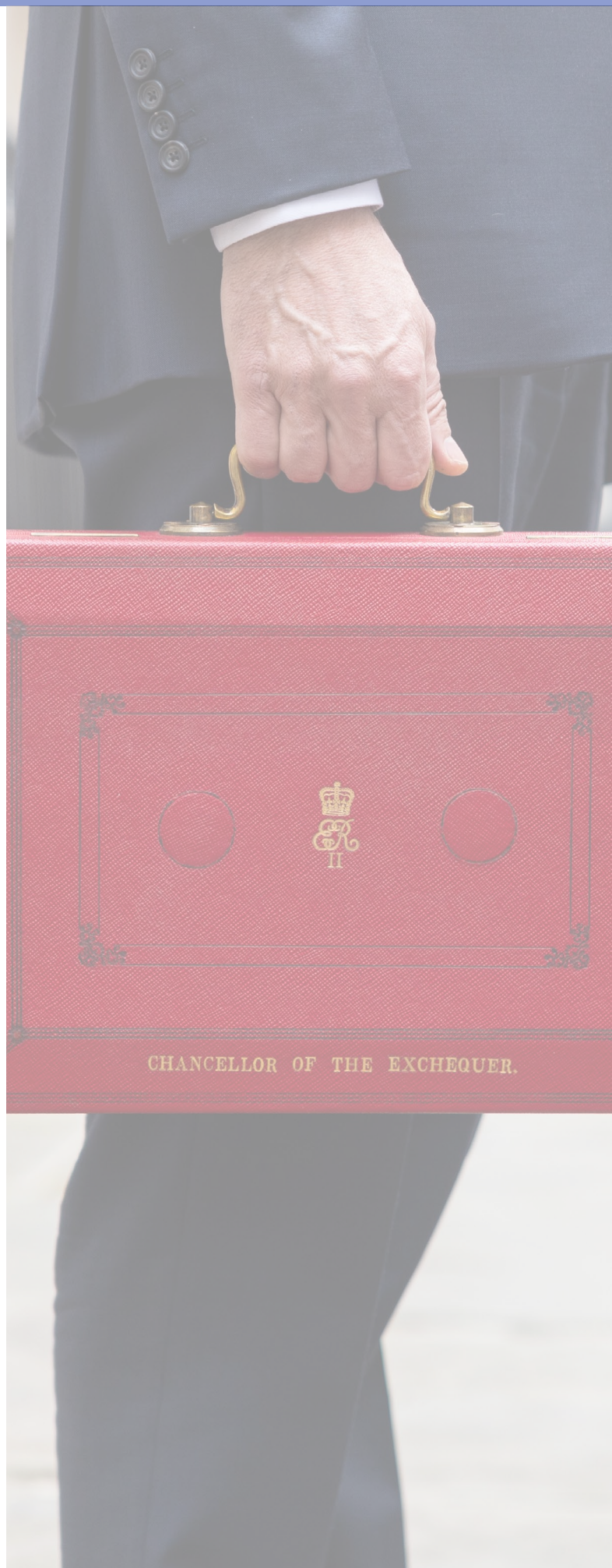
Conclusion

Despite industry rhetoric, the uprating of alcohol duty in previous years has not damaged the UK economy or the alcohol industry. However, cutting and freezing duty has led to an increase in alcohol deaths and hospitalisations.

If rates continue to be reviewed on an annual basis, they will be subject to political pressures to introduce cuts and freezes. Therefore, duty should be automatically uprated in line with inflation or earnings every year, with a comprehensive review taking place every 5-10 years. This will somewhat remove the politicised nature of the decision and lessen the influence of industry lobbying and the media focus.

Alcohol duty should clearly cover the cost of alcohol harm in the UK. Currently, the overall revenue from alcohol duty is around £13 billion³⁴ – which is less than half of the cost of alcohol to society (estimated to be at least £27 billion)³⁵.

By uprating alcohol duty each year, the Treasury can raise revenue to cover vital services, reduce alcohol consumption and harm, and encourage alcohol companies to produce and sell less harmful products.



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