HM Treasury

HM Revenue & Customs

The new alcohol duty system:

Final consultation response

March 2023

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Foreword

Since 2020, the government has been delivering its commitment to review the outdated and complex alcohol duty system, working closely with stakeholders to undertake the biggest reform of alcohol duties for 140 years. I am extremely grateful for the continued feedback from stakeholders in developing this historic duty reform, made possible by leaving the EU, including respondents to the Call for Evidence, the Alcohol Duty Review consultation, and the final technical consultation last Autumn.

After listening to feedback from industry, economists, public health groups and many business owners, we have designed a new alcohol duty system based on the founding principle of taxing alcohol by strength, ensuring consistency across all products for the first time. The new system will support the government's public health objectives, encourage product innovation, remove barriers to growth for small businesses, and support pubs through a new lower reduced duty rate.

As we entered the final stages of reform, we invited further feedback on the details of Draught Relief, Small Producer Relief, administration, and implementation to ensure we were delivering a system that meets its objectives. In this response, the government sets out our final position on these technical details before we move towards delivery on 1 August 2023.

I would also like to take this opportunity to thank all stakeholders that provided representations ahead of Spring Budget 2023. I understand this is a difficult time for businesses, dealing with the aftermath of the pandemic and rising costs due to the war in Ukraine, and one thing I have recognised as a high priority is the need to provide certainty.

Since ending the duty escalator in 2014, the alcohol industry has benefitted from a series of duty cuts and freezes, including the freeze extension I announced on 19 December 2022, helping to nurture the sector into the one we see today.

Whilst the government sincerely values the important contribution of this sector, our approach to alcohol duties must be balanced with the government's commitment to strengthening the public finances and responsible management of the UK economy. The temporary alcohol duty freeze will end on 31 July 2023, and alcohol duty will revert to its standard approach of uprating by RPI from 1 August 2023. The duty rates that will take effect from this Summer until further notice are confirmed within this response.

However, the importance of pubs in our society must continue to be recognised. Not only do they provide an important function in maintaining our social fabric and contributing to the wellbeing of our communities, some public health stakeholders indicated in response to our Call for Evidence that these venues are also less associated with harmful consumption. This is why the Prime Minister, in his time as Chancellor of the Exchequer, committed to delivering a new Draught Relief as part of our reforms, providing reduced rates of duty for alcohol sold 'on tap'.

The government will now go even further. To support our important hospitality industry, this government will increase the generosity of Draught Relief to ensure the duty on an average pint of beer in a pub does not change from August. Further, this government will ensure that there will always be a lower duty rate for draught products to recognise the value of our great British pubs. This means that every pint, in every pub across the UK will pay less duty than their supermarket equivalent - this is the government's Brexit Pubs Guarantee.

I welcome the continued conversation with stakeholders as we move towards implementation on 1 August 2023.

James Cartlidge MP

Exchequer Secretary to the Treasury

Chapter 1
Introduction

1.1 Alcohol duty is a long-standing system of taxes, with its origins in the 1643 Excise Ordinance levied by Parliament during the English Civil Wars. Today, it is composed of five individual taxes: beer duty, spirits duty, cider duty, wine duty and made-wine duty. These duties collectively raise over £13 billion each year, providing important revenue to fund public services. At the same time, they also help address the harms caused to society and public health by excessive or irresponsible drinking.

1.2 At the 2020 Budget, the Chancellor announced that the government would take forward a review of alcohol duty. Given that alcohol duty was harmonised under European Union (EU) law, the government saw an opportunity to reconsider the way that the duty system worked after the UK left the EU.

1.3 In October 2020, the government launched a Call for Evidence to seek the views of stakeholders on how alcohol duty could be reformed. This closed in November 2020 with 106 responses.

1.4 The government responded to the Call for Evidence at Autumn Budget 2021, setting out its proposals for the creation of a new alcohol duty system. In parallel, the government launched a consultation on the proposals, to seek further input from industry and other stakeholders. This consultation received 354 responses.

1.5 On 23 September 2022, the government published a further consultation on the outstanding technical details of the new alcohol duty system, as well as publishing the draft legislation and launching a Small Producer Survey to gather further information on the small alcohol producer population. This consultation closed on 18 November 2022 and received 53 responses. The Small Producer Survey also closed on 18 November 2022 and received 70 responses.

1.6 Throughout the consultation period, the government has engaged with a wide range of stakeholders. Details of this engagement and a list of respondents to the technical consultation can be found in Annex A.

The new alcohol duty system

1.7 As explained in the Call for Evidence document, the government has three primary objectives for the review, namely 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.

1.8 The government also aims to support public health, boost product innovation, and ensure the duty system reflects modern drinking practices.

1.9 As set out at Autumn Budget 2021, the government regards the current system as in need of major reform. It is too complex, burdensome, and inconsistent. The government therefore set out sweeping reforms to fundamentally restructure alcohol duty, taking advantage of the new opportunities available now that the UK has left the EU. The government accepts this will entail significant change for industry.

1.10 As we have progressed with designing the alcohol duty reforms, the government has been clear that its underpinning rationale is to support public health. This is achieved by taxing all alcohol by strength, eliminating inconsistencies in duty treatment which resulted in high-strength low-cost alcohol products, and a new Draught Relief to support safer consumption of alcohol in supervised public settings which are less associated with alcohol-related harm.

1.11 This document sets out the government's response to the views raised through the technical consultation process, and how its policy has changed accordingly. It should be considered in conjunction with previous consultation responses.

1.12 The reforms are not intended to significantly adjust the amount of revenue raised from alcohol duty, which is a matter for the Chancellor to consider through the fiscal event process. As set out in the published costings at Autumn Budget 2021, the government anticipates that the reforms will slightly reduce overall alcohol duty revenues.

1.13 This has been a joint consultation between HM Treasury and HM Revenue and Customs (HMRC). HM Treasury is leading on the new rates and reliefs, while HMRC is leading on the administrative regime and legislation. All can be contacted via the respective mailboxes: HMTVATandExcisePolicy@hmtreasury.gov.uk or mailbox.alcoholpolicy@hmrc.gov.uk.

1.14 The new alcohol duty rates and structures will be implemented on 1 August 2023. HMRC are working to deliver the new digital service from late 2024.

1.15 The government will evaluate the impact of the new rates and structures three years after the changes take effect on 1 August 2023. This will allow time to understand the impacts in the alcohol market and for HMRC to gather useful and accurate data with which to evaluate.

Northern Ireland

1.16 Under the Windsor Framework, the UK government will implement the reforms in Northern Ireland, including the ability to tax alcohol by strength, introduce Draught Relief, and introduce Small Producer Relief. The government will set out how this would work in more detail in the coming weeks.

Chapter 2
Summary of responses

2.1 This chapter summarises the contributions made by respondents to the consultation that ran from 23 September 2022 to 18 November 2022. 53 responses were received, and a full list of respondents is available in Annex A. A list of the consultation questions can be found in Annex B.

2.2 In parallel to the responses received, HM Treasury and HMRC also discussed the consultation with other government departments, interested businesses and trade bodies and public health groups.

Responses to issues raised

Draught Relief – Dispense Mechanism (Questions 1 – 4)

2.3 The government sought views on whether the dispense mechanism as defined within the published legislation would adequately distinguish between on and off trade containers. Generally, respondents agreed that the dispense system criteria would adequately distinguish between on and off trade containers. Those who agreed with it cited the use of 'designed for' around dispense mechanisms, and how that would include containers which use gravity dispense through mechanisms like cask taps.

2.4 The consultation asked whether the dispense system criteria captured draught products sold in 'Bag in Box' (BIB) formats. The majority of responses agreed that the dispense system criteria captures BIB formats, with some respondents noting that BIB is similar to casks in that they can be used for both gravity dispense and connection to dispense systems, retaining a dual purpose.

2.5 However, most responses from the cider industry did not think these formats would be covered. One respondent commented:

"Majority of On trade BIB dispense does not use a 'dispense system' as specified in the draft legislation. BIB are often on back bar or nearby cellar rather than connected to taps. They can be connected but this is unusual."

2.6 Some beer respondents were unsure about whether BIB should qualify for Draught Relief on the basis of potential for diversion to the off trade (because of size, compared to a larger cask which they view as low risk for diversion).

2.7 The government sought views on any other distinguishing characteristics of draught containers which could be identified at the duty point. In response to the question asking about other distinguishing characteristics between on trade and off trade containers, most respondents thought that there were no further distinguishing characteristics other than those already identified. A few responses mentioned that these containers are not designed to be opened without specialist tools, or that there is typically little marketing or branding on the containers.

2.8 The consultation asked if respondents thought the dispense system was necessary to prevent containers being diverted into the off trade. Views on whether the dispense system criteria was necessary to prevent diversion to the off trade were mixed, as were respondents views on whether just relying on the container size would be sufficient to prevent diversion to the off trade. Many respondents, particularly larger producers, did not want to see additional administrative burdens due to the introduction of Draught Relief, and felt that any additional complexity or cost would mitigate the benefits of the relief.

2.9 Some respondents used the opportunity to state that a reduction in VAT or business rates would be better to target on trade over off trade. Other respondents highlighted an industry practice in both the on and off trade, where takeaway containers are filled from draught containers, to allow customers to drink draught products in their home.

Small Producer Relief – Structure (Questions 5 – 8)

2.10 The government sought views on the general design of Small Producer Relief (SPR), and whether it would provide support for small producers in a manner consistent with the Alcohol Duty Review's wider objectives. The majority of respondents were in support of the general design of SPR, stating that it would provide support to small producers, and help them grow. One respondent commented:

"We welcome the proposed design of the Small Producer Relief scheme, particularly the removal of the cliff-edge in support for small cider producers and believes this is broadly consistent with the stated objectives of the Review."

2.11 However, respondents who were not supportive of the design noted the complexity of the system, challenging the alignment with the wider objective of simplifying the duty system. Some respondents also challenged the difference in duty rates between beer and cider, arguing that in order to achieve economic rationality across all alcoholic product types, the rates should be equalised across all duty types. Additionally, there were respondents calling for the 8.5% ABV limit to be removed, in order to bring all products in scope of the relief.

2.12 “It would seem fairer and more appropriate to the aims of standardising the approach to duty if all small producers could get relief on whatever strength products they produce.”

2.13 Some respondents called for the rate of SPR maintaining equivalence with the normal duty rate as rates change, to maintain the benefits for small producers.

2.14 The government asked respondents whether they agreed with the proposal to use 4.5% ABV for converting the current Small Brewer’s Relief (SBR) threshold over to SPR. On using 4.5% ABV as the conversion rate for the eligibility threshold, respondents generally agreed with this proposal. Respondents who were in support of the proposed ABV agreed with using the average ABV of small brewers’ beers of 4.5% ABV.

“Yes – this is far more appropriate to smaller brewers who are the innovators in the beer market than the national beer average of 4.2%. It broadly equates to the average ABV of small brewers who currently receive SBR”

2.15 Those that did not support the rate either preferred the option of aligning with the national average at 4.2%, wanted the conversion rate to take into account the average of other alcoholic products, or they wanted separate conversions to be done for each type of alcoholic product.

2.16 The government sought views on setting the maximum business size to 4,500 hectolitres of pure alcohol (hLpa) for qualifying for SPR. This amount was suggested based on increasing the SBR threshold from 60,000 hectolitres (hL) of beer to 100,000 hL, then converting hL to hLpa using an assumed strength of 4.5% ABV, the average strength of small brewer’s beer, to align the basis of the relief with the wider duty system (using hLpa rather than hL).

2.17 Views were mixed on using 4,500 hLpa as the maximum threshold for businesses to be eligible for SPR. Those who agreed supported the increase from 60,000 hL of beer to the equivalent of 100,000 hL. Those who disagreed with the proposal either stated that the size should be bigger, with some respondents suggesting 9,000 hLpa to align with the EU threshold of 200,000 hL for beer, or that it should be lower, though there were not suggestions of what a lower threshold should be.

2.18 In addition to what the threshold should be, some respondents also shared the view that the threshold should not count production which is not eligible for SPR, e.g. when a brewery also makes spirits which have an ABV higher than 8.5%.

2.19 The government sought views on how production under licence should be treated for SPR. The majority of respondents agreed on how production under licence is treated for SPR purposes. A number of respondents commented that ‘contract brewing’ or production 'under contract' is a practice that should be excluded from the SPR scheme.

2.20 One respondent who agreed with the proposals highlighted HMRC guidance which suggests this is already captured in the definition of 'under licence'. Responses consistently called for more extensive and clearer guidance on this area, and what is captured by the definition of under licence.

Small Cidermakers' Exemption (Questions 9 – 11)

2.21 The government asked for views on replacing the Small Cidermaker's Exemption with a 100% reduction in duty for the smallest cidermakers, applying the reduction to producers producing 5 hL of alcohol or less per year, and expanding this reduction to cover all alcohol products below 8.5% ABV.

2.22 Respondents were broadly in support of the proposals on the small cidermaker's exemption. Respondents in support of the proposals agreed that asking cidermakers to register was a positive move for compliance and fairness reasons, though some cider stakeholders did flag that this would increase administrative burden on producers, especially if monthly returns are required as some small cidermakers only operate on a seasonal basis. They largely supported this duty relief being expanded to all producers and that this aligned with the aims of the Alcohol Duty Review to simplify the system and provide equal treatment across categories. One respondent commented:

"Yes. To facilitate consistent application and compliance, it makes sense to bring the current exemption into the SPR system and wider duty regime for small cidermakers."

2.23 Respondents that were not supportive of the proposals questioned the preferential treatment cidermakers received. Others were concerned about the administrative burden that a requirement to register would cause, and requested that some definitions be revised e.g. redefine fresh fruit products as a separate category. They did not support expansion to other products, citing the expensive process of cidermaking compared to beer production as a reason to provide relatively more support to the cider industry.

2.24 Of the mixed responses, some were supportive of the registration and threshold proposals, but did not want this to be expanded to all products citing production cost differences as above. Some respondents claimed that expanding eligibility could undermine the pricing of traditional products. Cider stakeholders noted that small cider producers tended to not be supportive due to the increased administration requirements and their desire to maintain their current production volumes, whereas producers nearer the 70 hL threshold were supportive.

Effective rates and tapers (Questions 12 – 14)

2.25 The consultation sought views on the proposed effective rates, and the model for the new SPR tapers. Views were mixed on the effective rates and tapers as set out in the consultation. Some of those who were supportive of the rates believed the structure would better support their growth compared to the current model under SBR. Other respondents who were not supportive said that the bandings were too complicated or that rates should be more reflective of the costs in each sector, rather than equal for all product types. One response commented:

"The package is one we believe represents improvement on the current system, but it continues to overcompensate, and thus subsidise, a segment of the market."

2.26 Some respondents also called for a greater differential between the draught and general rates of duty. Many respondents called for cider and beer rates to be equalised, in line with the objective of standardising the regimes. A number of cider producers said that SPR should only be available to cider made from juice, not to cider made from concentrate.

Mergers and acquisitions (Questions 15 – 17)

2.27 The government sought views on the proposed transitional arrangements for when small producers merge. Respondents were overwhelmingly in favour of the government's proposals on mergers and acquisitions, including the treatment of shrinking production levels and de-mergers. One respondent expressed a concern about potential abuse of the rules by larger businesses and a small number questioned the length of the proposed 7-year period for de-mergers.

Other SPR questions (Questions 18 – 21)

2.28 The consultation sought views on using the same connectedness test as is used in SBR. On using the connectedness test, most businesses agreed with the proposals. The respondents in favour stated that the current model worked well for SBR. Some respondents did flag some forms of businesses collaborating which should not be considered a type of connectedness, such as collaborative brewing.

2.29 Several responses against the proposal suggested that there should be lower thresholds through additional tests, such as some form of test on 'control', looking at shareholding, debt, or similar measures. Some responses called for the discretion afforded HMRC to be used to consider businesses who brew beer and produce spirits as not connected.

2.30 A few respondents used the question on connectedness to voice disagreement with the fact that businesses must include ineligible products when calculating their alcohol production volumes, in relation to calculating their SPR discount. An example would be a brewery who also operates a distillery.

2.31 The government asked for views on whether compounders and rectifiers should be excluded from SPR. More than half of respondents thought that compounders and rectifiers should be excluded from SPR. Some of the responses who thought this said that this was because these producers are only blending and modifying products, rather than producing alcohol. Responses who were not supportive said that all forms of alcohol production should be in scope of SPR.

Administration and implementation (Questions 20 – 21)

2.32 The consultation sought views on when the "small producer year" should start and end, and when it should be introduced. The majority of respondents agreed that a 'small producer year' i.e. the period over which production is considered when determining eligibility for SPR and the rate payable should run from 1 February to 31 January. Others suggested maintaining the calendar year or moving to a tax year basis, citing apple harvest, software and pricing as justifications. Most who responded wanted to see SPR introduced as soon as possible and in line with the 1 August date for the rate changes.

Miscellaneous questions (Questions 22 – 25)

2.33 The consultation sought views on changing the name of the 'made-wine' category to 'other fermented products'. The majority who responded supported the proposal to rename the 'made-wine' category to 'other fermented products'. Six disagreed, with some proposing to retain the term 'made wine' and some to change to 'other fermented beverage'.

2.34 The government asked respondents whether they agreed with the removal of the 8.5% strength limit from the definition of cider. Most respondents to the question on removing the 8.5% limit from the definition of cider disagreed with the government's proposal. Respondents from the cider industry were almost unanimous in stating that cider is understood internationally as being a product of 8.5% ABV or less, so removing the threshold may cause confusion.

2.35 The government sought views on the proposed approach to the mixing of two or more alcoholic products. All those who responded to the question on the government's proposal on the mixing of two or more alcoholic products supported (or were neutral) towards it.

2.36 The consultation sought views on whether the facility brewers currently have to offset drawback claims should be extended to producers of all alcoholic products. Of those who offered an opinion on the government's proposal to allow all producers to offset drawback claims against the duty due on their return, there was near unanimous support for the proposal.

Small Producer Survey

2.37 The government ran a Small Producer Survey, to gain more data on small producers, in parallel to the technical consultation. The government's aim in launching this survey was to address some existing data gaps to help support the proposed design of Small Producer Relief.

2.38 The survey received 70 responses in total, including 35 beer producers, 20 cider producers, 8 mixed producers and 1 spirits producer.

2.39 The small number of responses prevented significant conclusions to be drawn, but by analysing the data we were able to judge that:

(a) Most respondents expected their production level to change, either increasing or decreasing. Responses did not indicate whether this was due to the SPR reforms or other factors.

(b) Majority of respondents who expect a reduction cite loss of consumer confidence, increasing costs or the closure of pubs.

(c) Current production size did not affect the outlook of respondents about whether they expect their production to increase, reduce or remain the same.

Other issues raised in response to the consultation

2.40 Some respondents used their technical consultation responses to raise other issues that were outside of scope of the questions the government proposed. Although some issues have been responded to as part of earlier consultation responses, there were some new concerns in response to the latest consultation which the government has been considering and will respond to in this document.

Draught Relief – Decanting

2.41 To ensure the Draught Relief is sufficiently targeted and meets its policy aim of supporting safe drinking in supervised venues which are less associated with alcohol harm, the draft legislation ensured that all businesses (apart from HMRC-approved producers or excise warehouses) were prevented from repackaging from containers that have been subject to the lower duty rate, unless it is for immediate consumption on the premises.

2.42 Some respondents suggested these provisions would prevent the practice of 'takeaway beer', whereby beverages are sold for off-site consumption by local community pubs and brewery taprooms. The government understands these are usually incidental sales – often less than 0.1% of total sales for a business - but respondents emphasised that it is an important practice for industry and became more popular during the pandemic. Respondents urged the government to find a solution which allowed this practice to continue.

2.43 Further, some individual businesses submitted responses which made the government aware that there are businesses basing their sales around decanting from draught containers. These businesses, known as 'bottle shops', operate by selling alcohol from large containers for on and off-site consumption, and is usually craft beer supplied by small producers. Whilst the government understands these businesses are a small part of the overall industry, the government welcomes small business innovation and does not intend to prevent small to medium enterprises within the sector from operating through the introduction of Draught Relief.

2.44 Some respondents submitted possible solutions for consideration. Whilst the government welcomes and has investigated these suggestions from industry, the submitted proposals provided for a reduced rate of duty on takeaway sales and removed the repackaging provisions, which results in significant compliance risk and undermines the policy objective of supporting safer drinking within the on trade.

2.45 The government has been exploring ways to ensure this practice can continue, whilst mitigating compliance risk by ensuring the correct amount of duty has been paid, and has been working closely with industry to find a practicable solution. The government thanks industry for raising this important issue in response to the consultation and for their continued support and collaboration in finding a way forward.

Draught Relief - Tankers

2.46 Draught Relief duty rates are determined on the container the alcoholic product is held in at the duty point. Some respondents raised concerns that under the published draft legislation, alcoholic products contained in road tankers at the duty point which are then transported to fill tanks at on trade premises, or used at festivals, would not qualify for the reduced duty rates. Respondents indicated that these road tankers are usually between 60 hL and 100 hL.

2.47 Road tankers would not qualify for Draught Relief at the duty point because they are not designed to connect to a dispense system, which is a necessary requirement for receiving the reduced duty rate. However, road tankers which are carrying duty paid alcoholic products will usually be transporting the product to large on-site tanks which would meet the qualifying criteria for Draught Relief, if they were placed in that container at the duty point.

2.48 Alcoholic products being stored and dispensed from large on-site tanks at on trade venues is largely a recent innovative development. Given road tankers supply alcohol to on-site tanks, respondents stated that road tankers should qualify based on the fact they would carry products to be sold on draught in pubs.

2.49 The large tanks situated in pub cellars and other on trade premises hold alcoholic product such as beer for sale to customers for on-site consumption in the same way alcoholic product is held in kegs or cask, and are designed to connect to a dispense system in the same way.

Chapter 3

The government's response

Draught Relief – Dispense Mechanism

3.1 As set out in the previous consultation responses, the government proposed that a draught container must be designed so as to connect to a dispense system in order for the product to qualify for the Draught Relief rate. This was intended to ensure the relief remained focused on the on trade by requiring specialist dispense equipment.

3.2 In response to the consultation published at Autumn Budget 2021, some respondents suggested that some formats, such as cask or 'Bag in Box' (BIB) formats (where the drink is dispensed directly from the container) would not fall in scope of this criterion.

3.3 The government understands that these containers tend to have a 'dual use' ability, where they can be both connected to a pump line or dispensed directly from the container. The government decided to further consult with industry to consider whether the definition needs to be adjusted to reflect this dual purpose, but it confirmed in its consultation response on 23 September 2022 that it intends for BIB formats to qualify for the relief, provided that the product fulfils the other qualifying criteria.

3.4 The current draft legislation requires containers to be designed to be connected to a pump or pressurised delivery system. Having analysed responses to the technical consultation and engaged with industry further, the government believes the dispense system requirement is an important part of ensuring that the draught product rate applies to the on trade, and therefore intends to retain this rule.

3.5 The government is confident dual-purpose containers will qualify for the relief, on the basis that these containers are designed to connect to a dispense system. Although the government understands that these containers will sometimes be dispensed by gravity dispense, the ability to connect to a dispense system ensures these containers can benefit from the lower duty rate based on the definitions outlined in the legislation.

Small Producer Relief – Structure

3.6 In the consultation, the government set out the design of SPR, with the objective of extending the existing SBR to support small producers for all products below 8.5% ABV. Some respondents challenged the upper limit of the relief of 8.5% ABV, arguing that this effectively excludes most wine (and spirits) producers.

3.7 Whilst the government has discussed the design of SPR with industry as part of the consultation process, the needs of businesses must be balanced with our public health objectives. The 8.5% ABV limit on SPR aligns with the duty thresholds set within the wider proposed duty system and ensures that we are not providing a lower rate of duty on higher strength alcohol products, even if they are produced by small producers. Given the majority of respondents supported the design of SPR, we are continuing with the broad design as proposed in previous responses.

3.8 The government proposed that the production threshold for SPR should be set at 4,500 hL of alcohol, based on converting 100,000 hL beer with an average strength of 4.5% ABV. Whilst responses were mixed on whether this was the right level, views from those who disagreed were split between raising and lowering the threshold and the majority were in favour of using a 4.5% ABV beer as the basis for conversion. The government is therefore intending to continue with the 4,500 hLpa threshold for SPR.

3.9 Respondents supported proposals to maintain the SBR position of production under licence, so we will continue with plans to use the same rules under SPR. The government will review guidance on what constitutes production under licence, and how 'contract brewing' and similar practices fit into this, to give businesses greater clarity.

Small Cidermakers' Exemption

3.10 Responses were broadly in support of making producers in receipt of the small cidermaker's exemption register with HMRC, converting the 70 hL threshold to 5 hLpa, and extending the 100% reduction in duty to all small producers producing products below 8.5% ABV. Although there were concerns raised about the administrative burden on the smallest producers, consideration will be given as to how HMRC can keep the administration to a minimum for these businesses.

3.11 Following the consultation and the Small Producer Survey, the government has decided to extend the 100% reduction in duty to all product types between 1.2% and 3.4% ABV, excluding spirits where the first 5 hLpa will be subject to a 65% reduction. For the first 5 hLpa for products between 3.5% and 8.4% ABV, the reduction in duty will be 100% for cider, wine-based products and other fermented products, 90% for beer, and 80% for spirits. In all cases, the discount will be more generous than what is available under the existing duty system.

Effective rates and tapers

3.12 The government previously set out our proposed model of discounts for businesses in receipt of SPR. Views on the effectiveness of the rates were mixed, with some respondents calling for lower rates, or rates tailored to the costs each sector faces. The government believes that the model proposed reduces the distortions of SBR – such as the 'cliff edge' – and ensures generous relief for small producers, whilst still encouraging producers to grow through the taper.

3.13 Given the need for SPR to balance duty relief with encouraging small businesses to grow, the government does not believe there is sufficient reason to review the rates at this point. However, the government will keep the rates and taper under review and will monitor the effect on the market. If there is evidence that they are not achieving their objective of supporting small producers, the government will review the rates.

3.14 The government previously published how the rates and tapers will work in practice on 23 September 2023 in the Alcohol Duty Review consultation response. These rates will have an impact on the previously published look up tables.

Beer 3.5-8.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate***	**Marginal Discount**	**Cumulative Discount**
1	0	5	10%	£18.91	£0
2	5	112.5	50%	£10.51	£94.55
3	112.5	225	55%	£9.45	£1,224.38
4	225	450	75%	£5.25	£2,287.50
5	450	900	85%	£3.15	£3,468.75
6	900	1350	100%	£0	£4,886.25
7	1350	4500	107.4%	-£1.55	£4,886.25

Cider 3.5-8.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	0%	£9.67	£0
2	5	50	75%	£2.42	£48.35
3	50	100	85%	£1.45	£157.25
4	100	200	95%	£0.48	£229.75
5	200	600	100%	£0	£277.75
6	600	1000	100%	£0	£277.75
7	1000	4500	100.8%	-£0.08	£277.75

Wine 3.5-8.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	0%	£24.77	£0
2	5	50	90%	£2.48	£123.85
3	50	100	90%	£2.48	£235.45
4	100	200	95%	£1.24	£359.45
5	200	600	100%	£0	£483.45
6	600	1000	100%	£0	£483.45
7	1000	4500	100.6%	-£0.14	£483.45

Spirits 3.5-8.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	20%	£19.82	£0
2	5	50	90%	£2.48	£99.10

3	50	100	90%	£2.48	£210.70
4	100	200	95%	£1.24	£334.70
5	200	600	100%	£0	£458.70
6	600	1000	100%	£0	£458.70
7	1000	4500	100.5%	-£0.13	£458.70

Spirits Below 3.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	35%	£6.03	£0
2	5	50	75%	£2.32	£30.15
3	50	100	85%	£1.39	£134.55
4	100	200	95%	£0.46	£204.05
5	200	600	100%	£0	£250.05
6	600	1000	100%	£0	£250.05
7	1000	4500	100.8%	-£0.07	£250.05

All Products Below 3.5% ABV (Excluding Spirits)					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	0%	£9.27	£0
2	5	50	75%	£2.32	£46.35
3	50	100	85%	£1.39	£150.75
4	100	200	95%	£0.46	£220.25
5	200	600	100%	£0	£266.25
6	600	1000	100%	£0	£266.25
7	1000	4500	100.8%	-£0.08	£266.25

Draught Beer 3.5-8.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	10%	£17.17	£0
2	5	112.5	50%	£9.54	£85.85
3	112.5	225	55%	£8.59	£1,111.40
4	225	450	75%	£4.77	£2,077.78
5	450	900	85%	£2.86	£3,151.03
6	900	1350	100%	£0	£4,438.03
7	1350	4500	107.4%	-£1.41	£4,438.03

Draught Cider 3.5-8.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	0%	£8.78	£0
2	5	50	75%	£2.19	£43.90
3	50	100	85%	£1.32	£142.45
4	100	200	95%	£0.44	£208.45
5	200	600	100%	£0	£252.45
6	600	1000	100%	£0	£252.45
7	1000	4500	100.8%	-£0.07	£252.45

Draught Wine 3.5-8.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	0%	£19.08	£0
2	5	50	90%	£1.91	£95.40

3	50	100	90%	£1.91	£181.35
4	100	200	95%	£0.95	£276.85
5	200	600	100%	£0	£371.85
6	600	1000	100%	£0	£371.85
7	1000	4500	100.6%	-£0.11	£371.85

Draught Spirits 3.5-8.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	20%	£15.26	£0
2	5	50	90%	£1.91	£76.30
3	50	100	90%	£1.91	£162.25
4	100	200	95%	£0.95	£257.75
5	200	600	100%	£0	£352.75
6	600	1000	100%	£0	£352.75
7	1000	4500	100.5%	-£0.10	£352.75

Draught Spirits Below 3.5% ABV					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	35%	£5.47	£0
2	5	50	75%	£2.11	£27.35
3	50	100	85%	£1.26	£122.30
4	100	200	95%	£0.42	£185.30
5	200	600	100%	£0	£227.30
6	600	1000	100%	£0	£227.30
7	1000	4500	100.8%	-£0.06	£227.30

All Draught Products Below 3.5% ABV (Excluding Spirits)					
Band	**Start hL (Greater Than)**	**End hL (Inclusive)**	**SPR Marginal Rate**	**Marginal Discount**	**Cumulative Discount**
1	0	5	0%	£8.42	£0
2	5	50	75%	£2.11	£42.10
3	50	100	85%	£1.26	£137.05
4	100	200	95%	£0.42	£200.05
5	200	600	100%	£0	£242.05
6	600	1000	100%	£0	£242.05
7	1000	4500	100.8%	-£0.07	£242.05

**Discount as a proportion of the main duty rate*

Mergers and acquisitions

3.15 Consultation responses indicated that there was broad support for the proposed transitional arrangements for SPR duty rates, when two or more small producers merge. The government will therefore not be making any changes to the technical details within the draft legislation.

3.16 Respondents mainly agreed with the arrangements for merged producers whose production drops during a transitional period.

3.17 On the treatment of merged small producers who subsequently de-merge, some respondents questioned the seven-year exclusion from further transitional arrangements if the same producers decide to merge again. The government views this as an important measure to prevent potential abuse of the preferential transitional arrangements.

3.18 One respondent raised concerns about potential abuse of the rules by larger businesses. The government believes that the transitional arrangements are needed to allow small producers to properly consider mergers with fellow small producers without the tax system unfairly distorting their business decision-making. However, if evidence reveals any abuse of this in the future by larger businesses the government will review these arrangements.

Other SPR questions

3.19 The government proposed in the consultation to use the same connectedness test as SBR uses, to determine whether businesses are economically cooperating and should be considered a single producer for the purposes of calculating production levels. A small number of respondents suggested additional measures, such as through some form of test on 'control'. The connectedness test as set out in the Corporation Tax Act 2010 covers scenarios where businesses are under common control, so the government believes that this remains the most appropriate test for use in SPR.

3.20 In response to views on including non-eligible products for calculating production levels under SPR, the government has considered the impact this will have on a small number of brewers in receipt of SBR who also produce other products, such as through a distillery. These products are included in production levels, as the government does not want to create perverse outcomes, such as benefiting large spirits producers who start producing beer.

3.21 The government believes that SPR still offers an improved relief for brewers, through the increased threshold from 60,000 hL to 100,000 hL, the extension of SPR to include products below 2.8% ABV, and SPR covering all products below 8.5% ABV, such as ready to drink spirits. Further, these businesses will be benefitting from operating multiple products, such as being able to use the wash from their beer in producing their spirits products. Given these factors, and the fact the government believe the volumes affected by this are relatively small, the government has decided to continue with the design as previously proposed.

3.22 The government sought views on whether compounders and rectifiers should be eligible to claim SPR or not. Most respondents proposing their exclusion did not justify their reasoning. However, those who did give a reason cited lower running costs compared to other production costs, or the fact that these producers do not create the alcohol themselves.

3.23 However, the government does not believe that production costs should influence the rate of alcohol duty paid and aim to treat all types of producers equally under the reforms. Given this, and the fact that the products compounders and rectifiers produce are the same as other spirits producers, the government will not exclude compounders and rectifiers from the scope of SPR.

Administration and implementation

3.24 The government invited feedback on the proposed 'small producer year' i.e., the period over which production is considered when determining eligibility for SPR and the rate payable. Given a majority of those who responded to this question supported the proposal of 1 February to 31 January, which aligns with the start date for duty increases, the government will continue with this proposal as the basis period.

3.25 In relation to implementation timelines, most respondents wanted to see the new relief introduced as soon as possible. The government can now confirm that SPR will be introduced alongside the new duty rates and structures on 1 August 2023.

Miscellaneous questions

3.26 The government asked for views on the proposal to change the name of the 'made-wine' category to 'other fermented products'. The majority of respondents were in agreement or neutral on this change. The government is satisfied that the description 'other fermented products' more accurately reflects the alcoholic products included this category.

3.27 Proposals to remove the upper strength limit of 8.5% ABV from the definition of cider raised concerns from the cider industry. Many feel the removal of the upper strength limit may cause confusion with other products such as apple wine.

3.28 The government has previously announced that it intends to run a consultation on the definition of cider for tax purposes later in 2023. The upper 8.5% ABV strength limit will therefore be retained in the cider definition and this issue will be considered further as part of the wider review of the cider definition later in the year.

3.29 No concerns were raised by respondents on the government's proposals for the mixing of two or more alcoholic products.

3.30 Respondents were supportive or neutral on the government's proposal to extend the facility to offset drawback claims against duty due on producer's monthly duty returns. This is currently only available to brewers. The government believes it is a fairer approach to provide this facility for all alcoholic product producers.

Small Producer Survey

3.31 The results from the Small Producer Survey have been useful in confirming the government's position on the SPR rates. The government welcomed the insight into factors impacting small producers' production levels and whether they were expected to change in the future. These have helped to give a broader picture of the issues small producers face.

3.32 However, the government received a limited number of responses to the Small Producer Survey and the sample size is not representative of industry as a whole. Consequently, the results have been analysed with caution and have not altered the previously proposed policy design.

Other issues raised in response to the consultation

Draught Relief - Decanting

3.33 The government understands this practice is important to industry and aims to allow decanting to continue whilst mitigating compliance and legal risks through ensuring that the correct duty has been paid based on where the beverage is consumed.

3.34 The government believes that we are united with industry in the aim of providing for beverages consumed off-premises incurring the full rate of duty. Whilst the legislative suggestions submitted by industry did not achieve this aim, respondents confirmed that reduced duty rates should only apply to beverages consumed in the on trade, and beverages consumed off-site should incur the full rate of duty. The primary objective was to ensure the practice was not prevented from continuing through the introduction of the new duty system.

3.35 As such, the government does not intend to provide reduced duty rates for alcohol which is taken home and consumed privately, as this would go against the public health objectives that underpin the Draught Relief, namely support safe drinking in supervised venues which are less associated with alcohol harm.

3.36 However, Draught Relief was designed to be identifiable at the duty point and, as the default, all containers that fulfil the eligibility criteria at the duty point will get the reduced rate of duty. The relief was designed to be identifiable at the duty point so there was no additional complexity for industry as a result of introducing this relief.

3.37 The nature of the issue means that the government now needs to identify whether the beverage was consumed on or off premises, which is often not possible at the duty point. This means that some additional administration burden on industry is unavoidable, but the government has tried to take a pragmatic approach by mitigating it as far as practicable.

3.38 The government has decided to amend the legislation to allow for full duty paid containers to exist under the new duty system. This means that businesses will have the ability to purchase fully duty paid containers should they wish to decant from the container for their customers to consume off-site. Containers will continue to incur the reduced rate of the duty at the duty point as the default, unless the duty payer chooses to pay the full rate.

3.39 Providing the ability for full duty paid barrels to exist under the new system means that bottle shops and other businesses that want to decant would be able to request a full duty paid container from their supplier, who then would source it from the producer, excise warehouse or importer. The onus for obtaining a draught container which has paid the non-discounted rate of duty would be on the end business that is decanting for off-premises consumption. In the event of an inspection, HMRC would be able to assure this by checking the invoice (or other supporting documentation) for the container from which the decanting for consumption off premises was being done to check the standard rate of duty has been paid.

3.40 On-site consumption of beverages decanted from a container is allowed from a reduced duty container, but off-site consumption must be from a container that has paid the full rate of duty. The government will not place any requirements on industry to provide fully duty paid containers, but it will be provided for as an option, ensuring businesses have reasonable choice on how to proceed, based on what is suitable and proportionate for their business model.

3.41 The government recognises that this may still be burdensome for some business models and remains open to considering possible solutions put forward by stakeholders that involve the full duty being paid on 'takeaway beer'.

Draught Relief - Tankers

3.42 The government agrees that alcoholic products that are transported in road tankers to large tanks at on trade premises should be treated in the same way as alcoholic product held in large kegs and casks and so should qualify for Draught Relief.

3.43 The government has worked with industry to amend the draft legislation so that alcoholic product that is being transported in road tankers for the purpose of filling on site tanks at on trade venues or dispensed directly from the tanker at festivals will qualify for Draught Relief.

Chapter 4

Rates and structures from 1 August 2023

4.1 The government previously published its proposed rates and structures for the new alcohol duty system in its consultation response released at Autumn Budget 2021.

4.2 Alcohol duties are due to rise in line with RPI inflation on 1 February each year. In practice, the government has enacted numerous cuts and freezes to alcohol duties over the past decade. Most recently, on 19 December 2022, the government confirmed that alcohol duty rates will continue to be frozen until 1 August 2023 to align any duty changes with the alcohol duty reforms, to reduce the impact of duty changes on businesses in 2023.

4.3 Since the previous rates were published, the wider economic context has changed and inflation has reached historic highs. The government has therefore considered whether the rates are still fit-for-purpose.

4.4 The government has considered the fiscal impact of changes, the potential benefits to public health, the economic impacts of changes to duties on producers and consumers, as well as the impact the current economic context has had on the UK economy and the hospitality sector.

4.5 The government believes that the changes set out below strike a pragmatic balance between these considerations and highlight the government's commitment to responsible management of the UK economy, as well as continue to ensure that these changes will provide pubs, breweries, distilleries and other alcohol-related businesses with increased certainty to plan and make investment decisions more effectively.

4.6 The government therefore confirmed at Budget that alcohol duty rates have been uprated by Retail Price Index (RPI), but the value of Draught Relief has been increased from the previously proposed 5% on qualifying beer and cider and 20% on qualifying wine, spirits and other fermented products, to 9.2% for qualifying beer and cider and 23% for on qualifying wine, spirits and other fermented products. Table 4.A and 4.B confirms the rates and structures from 1 August 2023.

4.7 All other policy from 1 August 2023 remains as published in previous publications.

Table 4.A: New duty rates (per litre of pure alcohol) from 1 August 2023

ABV	Beer	Cider	Wine, Spirits, and other fermented products
0-1.2%	Nil	Nil	Nil
1.2-3.4%	£9.27	£9.27	£9.27
3.5-8.4%	£21.01	£9.67	£24.77
8.5-21%	£28.50	£28.50	£28.50
22%+	£31.64	£31.64	£31.64

Table 4.B: New duty rates for draught products (per litre of pure alcohol) from 1 August 2023

ABV	Beer	Cider	Wine, Spirits, and other fermented products
1.2-3.4%	£8.42	£8.42	£8.42
3.5-8.5%	£19.08	£8.78	£19.08

Annex A

Respondents to the consultation

A.1 53 individual responses were received from stakeholders. Those who responded (in alphabetical order) were:

1. Accolade Wines
2. Australian Commercial Wine producers
3. Australian Grape & Wine
4. Australia-United Kingdom Chamber of Commerce
5. Bolton CAMRA
6. Brightbeer Limited
7. British Beer & Pub Association
8. Budweiser Brewing Group
9. CAMRA
10. CAMRA Keighley & Craven
11. CAMRA Leicester
12. CAMRA Slough, Windsor and Maidenhead
13. CAMRA Tendring
14. CAMRA Watford & District
15. Chartered Institute of Taxation
16. Global Brands Ltd
17. Greene King
18. H. Weston & Sons Ltd
19. Hambleton Brewery
20. Healeys cyder
21. Heineken
22. Hogs Back Brewery
23. J Chandler & Co (Buckfast) Ltd
24. JW Lees & Co (Brewers) Ltd
25. Karlau LTD
26. Michael Gibson/Burton-on Trent CAMRA
27. Molson Coors
28. Moorhouse's Brewery
29. Mr Edward Anthony Spearey
30. NACM (National Association of Cider Makers)
31. Roosters
32. Ross Cider
33. Rutts Lane Cider
34. Sheppy's Cider Ltd
35. SIBA
36. Simpsons Wine Estate
37. Small Independent Cidermakers Association CIC
38. Sampford Courtenay Cider

39. South African Liquor Brand owners' Association (SALBA)
40. South Australian Wine Industry Association Incorporated
41. Thatchers Cider Company Ltd
42. The Cotswold Cider Company Ltd
43. The Filling Station
44. The Lancashire Mead Company Limited
45. Three B's Micropub
46. Three Brothers Brewing Company
47. Tricky Cider / Tricky Drinks Ltd
48. Weetwood Ales Limited
49. Windsor & Eton Brewery
50. Wine Australia
51. Wine GB
52. Wines of Chile
53. WSTA

Annex B
Technical consultation questions

Draught Relief – dispense mechanism

1. Does the dispense system criteria outlined in the draft legislation adequately distinguish between on and off trade containers? Is there an opportunity for eligible containers to be diverted to the off trade?

2. Do the dispense system criteria outlined in the draft legislation capture 'bag in a box' formats? If not, are there design criteria for 'bag in a box' formats used in the on trade which distinguish them from containers used in the off trade?

3. Other than the fact they are pressurised, designed to be connected to a dispense mechanism and the size of the containers, are there any other distinguishing characteristics of draught containers which can be easily identified at the duty point and which would ensure that the product can only be sold in the on trade?

4. Is defining a dispense system necessary to ensure the relief only benefits the on trade? Would removing this requirement and relying on the container size be sufficient to ensure products were not diverted to the off trade?

Small Producer Relief

5. Would the proposed design of the Small Producer Relief (SPR) as outlined in this document achieve the government's objective of providing a more general form of relief to small producers in a way that is consistent with the Alcohol review's wider objectives?

6. Do you agree that the government should use an average ABV of 4.5% as the basis for converting the current Small Brewers Relief (SBR) thresholds for use in SPR? If not, what would you propose as an alternative and why?

7. Do you agree that the maximum size for businesses to qualify for the relief should be 4,500 hectolitres of pure alcohol? If not, what would you propose as an alternative and why?
8. Do you agree with how production under licence should be treated for SPR? If not, how do you think production under licence should be treated?

Small Cidermakers' Exemption

9. Do you agree with the government's proposal to replace the Small Cidermakers' Exemption with a 100% reduction in duty (giving the effect of a zero rate) for the smallest cidermakers within the broader SPR scheme?
10. Do you agree that this 100% reduction in duty should apply to producers producing 5 hLpa or less per year? If not, what would you propose as an alternative and why?
11. Do you agree that this 100% reduction in duty should be expanded to cover all products below 8.5% ABV rather than just apple and pear cider?

Effective rates and tapers

12. Do you agree with the proposed effective rates set out in the response document for draught and non-draught beer, cider, wine and made-wine and spirits for products below 3.5% ABV, and at or above 3.5% but below 8.5% ABV?
13. Do you agree with the proposed models for the new SPR tapers?
14. If not, what would you propose as alternatives and why? Please provide supporting information on your production volumes, strengths and costs via the small producer survey which can be found on the landing page for the consultation response.

Mergers and acquisitions

15. Do you agree with the proposed transitional arrangements for small producers that merge with one or more other small producers? If not, which parts of the mergers and acquisitions rules do you disagree with? How do you think they should be changed?
16. Do you agree that if a producer's production drops and the transitional arrangements provide a less generous SPR rate than the usual rules, the transitional arrangements should terminate?
17. Do you agree with the proposals for de-merger situations?

Other SPR questions

18. Do you agree that the connectedness test for whether businesses are economically cooperating should be as now for SBR (i.e. linked to s. 1122 of the Corporation Tax Act 2010)? If not, what would you suggest as an alternative?

19. Do you agree that compounders and rectifiers of duty-suspended spirits should be excluded from SPR?

Administration and implementation

20. Do you agree with the proposed “small producer year” running from 1 February to 31 January? If not, please propose an alternative.

21. When do you think the most appropriate time would be to introduce the new small producer relief?

Miscellaneous questions

22. Do you agree with changing the name of the ‘made-wine’ category to ‘other fermented products’? If not, what do you suggest as an alternative?

23. Do you agree with the removal of the strength limit of 8.5% from the definition of cider?

24. Do you agree with the proposed approach to the mixing of 2 or more alcoholic products per the draft clauses?

25. Do you agree that the facility brewers currently have to offset drawback claims against duty due on their monthly return should be extended to producers of all alcoholic products?

Small Producer Survey

26. We are also running a small producer survey to give us a greater understanding of economies of scale across the industry. The survey can be found on the landing page for the consultation responses.

HM Treasury contacts

This document can be downloaded from www.gov.uk

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